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October 29, 2019

Re: Chapleau Public Utilities Corporation (CPUC)
Application for approvals to amalgamate Chapleau Public Utilities Corporation and Chapleau Energy Services Corporation and continue operations as Chapleau Public Utilities Corporation
Responses to OEB Staff Interrogatories

Dear Ms. Long,

In accordance with Procedural Order No. 1, please find attached CPUC's response to Board Staff's interrogatories.

Throughout the interrogatories Board Staff sought confirmation of various types of relief that CPUC was seeking as part of the Application; in particular Board Staff sought confirmation of certain types of relief that were, it seems to CPUC, ancillary to an amalgamation if approved by the Board under s. 86 (1) (c) of the OEB Act.

Accordingly, CPUC would like to confirm, as it did in its interrogatory responses, that it is seeking the following relief from the Board as part of its application:

a) CPUC asks that, further to s. 86(1)(c) of the OEB Act, the Board approve the amalgamation of CPUC and CESC into a single entity operating as CPUC;

b) CPUC asks that, if approval to amalgamate is granted, the Board grant its approval of the amalgamation with an effective date of January 1, 2018, so that the Certificate of Amalgamation issued to the amalgamated entity CPUC with an effective date of January 1, 2018 will not be void pursuant to s. 86(6.2) of the OEB Act;

c) CPUC asks that the Board transfer its Licence and rate orders to the amalgamated entity pursuant to s. 18 of the OEB Act; in the event the Board grants CPUC an effective date of January 1, 2018 for the approval of its amalgamation CPUC asks that the transfer of the Licence and rate orders, if also approved, be granted an effective date of January 1, 2018;

d) CPUC asks that the Board grant the amalgamated entity permission to continue to track costs to existing deferral and variance accounts; in the event the Board grants CPUC an effective date of January 1, 2018 for the approval of its amalgamation CPUC asks that the Board also grant an effective date of January 1, 2018 for the permission for the amalgamated entity to continue to track costs to existing deferral and variance accounts; and

e) CPUC asks that the Board grant CPUC an exemption under s. 71(4) of the OEB Act permitting it to undertake certain business activities beyond the distribution of electricity as a result of exceptional circumstances; in the event the Board grants CPUC an effective date of January 1, 2018 for the approval of its amalgamation CPUC asks that the Board also grant an effective date of January 1, 2018 for the approval sought under s. 71(4).

CPUC notes that the Board has provided the opportunity for CPUC to provide an argument in chief to be filed on November 7, 2019; CPUC will take advantage of that opportunity to provide details as necessary with respect to the various items of relief outlined above.

Thank you for your consideration,

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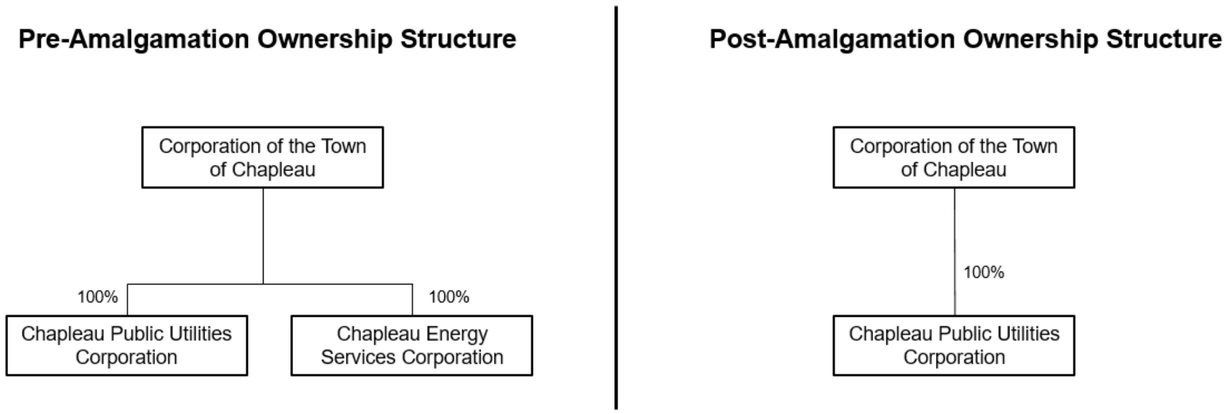
OEB 1-Staff-1

Ref: Application Form, s.1.3.5

Preamble: OEB staff has created an overview of the corporate ownership structure pre- and post-amalgamation based on information provided in the Application Form:



Question:

a) Please confirm that the corporate organizational chart outlined above accurately depicts the amalgamation. If it does not, please correct as necessary.

CPUC Response: CPUC confirms that the above ownership structure is accurate.

OEB 1-Staff-2

Ref: *Ontario Energy Board Act, 1998*, (OEB Act) section 71(1)
Application Form, s.1.6.2

Preamble:

Section 71(1) of the OEB Act states:

> **71** (1) Subject to subsection 70 (9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity, c. 23, Sched. B. S. 12

-And-

In s.1.6.2 of the Application Form, Chapleau Public Utilities Corporation (CPUC) states:

> ***This cost increase is partially offset by the generation of other revenue from the non-CPUC customers of CESC that continue to require service and use Amalco as their service provider***; to the extent that such other revenue opportunities have persisted into the forecast test period Amalco has included those forecast revenues as an offset to its requested test year revenue requirement. [***Emphasis added***]

Questions:

a) Based on the emphasized statement from s.1.6.2 of the Application Form, it appears that Chapleau Energy Services Corporation (CESC) has continued to provide services to non-CPUC customers following the amalgamation. In the CPUC cost of service application[1], it was noted that services to non-CPUC customers included streetlight maintenance, chimney cleans, and Hydro One rural work. Please confirm whether CESC is providing the aforementioned services to non-CPUC customers following the amalgamation of CPUC and CESC. If there are additional services to those previously outlined, please describe the type(s) of services provided.

CPUC Response: CPUC notes that in the context of this and other interrogatory responses, the term "non-CPUC customers" is used to refer to any customer receiving services other than regulated distribution service, which may include both regular distribution customers of CPUC and non-distribution customers of CPUC. CPUC confirms that it has continued to provide the noted services to non-CPUC customers;

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for a complete list of the types of services that CESC and now CPUC provides, please see the response to OEB-Staff-3 b). CPUC notes that the question assumes both that CESC is the entity that is currently providing these services, while at the same time acknowledging the amalgamation of CESC and CPUC into a single, amalgamated company operating under the name CPUC. As noted in the Application Form, the applicant has ostensibly been operating as an amalgamated entity under the name CPUC despite having failed to obtain approval of the amalgamation from the OEB under s. 86 (4) of the OEB Act through inadvertence and is asking the Board in its decision in this application to approve the amalgamation with an effective date of January 1, 2018, in order to give effect to the issued Certificate of Amalgamation for CPUC. If the Board grants this request then it would be appropriate to say that CPUC, the amalgamated entity, was providing these services following the proposed amalgamation; if the Board does not grant this request, then CPUC believes that it would have to attribute the work to either CESC or CPUC, as the amalgamation would then be considered ineffective until the effective date of the Board's approval in this proceeding with the result that the original CPUC and CESC will not be considered to have been dissolved on the date of the amalgamation.

b) If CESC has continued to provide energy services to non-CPUC customers following its amalgamation with CPUC, please explain how CPUC plans to address non-compliance with section 71(1) of the OEB Act (i.e., whether CPUC plans to discontinue the non-compliant activity or seek an exemption under section 71(4) of the OEB Act).

CPUC Response: CPUC, through this application, asks the Board for an exemption under section 71(4) of the OEB Act so that it can continue to provide these services to non-CPUC customers.

c) If an exemption will be sought, please explain why CPUC's circumstances would warrant an exemption.

CPUC Response: CPUC believes it would be appropriate to grant CPUC an exemption under s. 71(4) based on the operational circumstances that CPUC faces. CPUC is one of if not the smallest regulated electric utilities in the province, and one of if not the most remote regulated electric utilities in the province. The ability to generate some incremental revenue using any excess resources it may have on hand as a result of having to maintain a minimum acceptable workforce in order to meet applicable OEB and Electrical Safety Standards would allow CPUC to continue to offset some of the necessary costs it incurs. Put more plainly, CPUC believes it is ideal if it can, for example, generate some revenue from non-CPUC customers by utilizing its linemen to perform streetlighting maintenance, rather then simply absorb, in distribution rates, all the downtime costs associated with the fact that CPUC has to have those linemen on staff and on call even when they are idle. CPUC notes that in its 2019 Cost of Service Application it provided evidence about these services, forecast a level of revenue associated with these services, and had that revenue factored into its 2019 rates, such that ratepayers are already enjoying the full benefit of the forecast revenue stream; in the event the Board does not allow CPUC to generate revenue by providing these services the short term effect would be a loss to CPUC as a result of the inability to account for the lost revenue in rates until its next rebasing application, while the long term effect would be an increase in CPUC's revenue requirement to be recovered from distribution rates on rebasing.

d) If CPUC determines to seek an exemption under section 71(4), please confirm that CPUC will formally request the exemption and provide reasoning for the request.

CPUC Response: CPUC confirms that it seeks an exemption under 71(4); CPUC asks that the Board consider this request in the context of this application, based on the evidence in support of the request as set out in these interrogatory responses.

<u>OEB 1-Staff-3</u>

Ref: Application Form, s.1.3.1

Preamble:

CPUC states that CESC also provided outside services to various other customers.

Questions:

a) Please briefly explain the type(s) of outside services that CESC provided to other customers (i.e., non-CPUC customers) prior to amalgamation with CPUC between 2012 and 2017.

   CPUC Response: In addition to providing services to CPUC, CESC performed non-utility work such as streetlight maintenance, chimney cleans, and Hydro One rural work. Please see CPUC's response to part d) of this question for further details.

b) Did CESC continue to provide the services specified in part (a) in 2018 and 2019? Were these services provided to the same customers and/or new customers?

   CPUC Response: As noted in the Application Form, the applicant has ostensibly been operating as an amalgamated entity under the name CPUC despite having failed to obtain approval of the amalgamation from the OEB under s. 86 (1) (c) of the OEB Act through inadvertence and is asking the Board in its decision in this application to approve the amalgamation with an effective date of January 1, 2018, in order to give effect to the issued Certificate of Amalgamation for CPUC. If the Board grants this request then it would be appropriate to say that CPUC, the amalgamated entity, was providing these services following the proposed amalgamation, and CESC will have been dissolved as of January 1, 2018; if the Board does not grant this request, then CPUC believes that it would have to attribute the work to either CESC or CPUC, as the amalgamation would then be considered ineffective until the effective date of the Board's approval in this proceeding with the result that the original CPUC and CESC will not be considered to have been dissolved on the date of the amalgamation.

c) Please summarize the revenues and costs related to these outside services in 2017 (and, if available, 2018 and 2019).

CPUC Response:

- 2017 Revenues $29,140.06 and Expenses $20,492.03.
- 2018 Revenues $49,983.77 and Expenses $35,533.68.
- 2019 (Budgeted) Revenue $39,474 and Expenses $25,658.
- 2019 (To-date) Revenues $27,530.09 and Expenses $19,996.51.

CPUC notes that the 2019 Budgeted Revenue and Expenses were incorporated into its 2019 Cost of Service filing, resulting in a reduced revenue requirement for the purpose of setting 2019 rates.

d) Please advise whether CPUC intends to continue providing outside services that CESC provided prior to amalgamation and if so, describe the services that would be provided.

CPUC Response: CPUC intends to continue providing outside services that CESC provided prior to amalgamation (subject to the Board's approval of any required exemption under s. 71(4) of the OEB Act). CPUC notes that this intent was discussed and unopposed in the context of EB-2018-0087, with the revenue generated by these activities having been embedded as revenue offsets in CPUC's Board, approved 2019 rates.

Types of Services Provided:

- Streetlight maintenance
- Chimney clean
- Tree cutting
- Hydro One
- Repair broken poles
- Repair ice surface lights
- Change out Township street banners
- Repair yard lights
- Lift communication lines
- Lift hot tub
- Lift pump
- Repair shingles and facia
- Install clothesline pole
- Install beacon & windsock at Airport

- Drill holes
- Stand and install poles & install yard lighting
- Install poles
- Repairs flags
- Open switches (at the mill)
- Re-secure conductor
- Takedown Selkirk chimney
- Repair guy wire
- Dig well
- Remove old Vianet poles
- Lift man on to roof
- Repair burnt hot line clamp
- Lift pellet furnace into basement

As the Board will note from the list above, the services mostly pertain to providing local Chapleau residents, most of whom are CPUC distribution customers either directly or indirectly, with access to some of the surplus resources CPUC can provide on occasion, i.e., occasional use of CPUC's specialty vehicles for various one time uses. Given how small and remote Chapleau is and the limited access Chapleau residents have to these type of resources outside of CPUC, and given the fact that CPUC has to maintain the availability of these resources in any event in order to be able to maintain its distribution system properly, CPUC respectful submits that allowing CPUC to generate some revenue from making these resources available to the local community, particularly as all the revenue is credited to ratepayers through an offset to CPUC's rates on a forecast basis, warrants an exemption under s. 71(4) of the OEB Act insofar as one is required.

OEB 1-Staff-4

Ref: Application Form, s.1.6.2

Preamble:

In s.1.6.2 of the Application Form, CPUC states:

> The amalgamation has no impact on prices to the consumers. Whether the transfer of the assets and personnel had been facilitated by either a direct asset transfer or indirectly through amalgamation, the practical effect on CPUC's customers is identical. ***CPUC would no longer be charged for the use of CESC resources; instead CPUC would incur the costs of those resources directly***. Whether through an asset transfer or amalgamation, the effect on CPUC's customers was going to be an increase in gross costs, because ***instead of being allocated a portion of the total costs of CESC, with CESC bearing the costs of any shortfall in the amounts recovered from CPUC*** and any non-CPUC related revenue that CESC was able to generate, CPUC had to become directly responsible for the full gross costs of the assets and personnel it used to maintain and operate its system. ***This cost increase is partially offset by the generation of other revenue from the non-CPUC customers of CESC that continue to require service and use Amalco as their service provider***; to the extent that such other revenue opportunities have persisted into the forecast test period Amalco has included those forecast revenues as an offset to its requested test year revenue requirement. [***Emphasis added***]

Questions:

a) The excerpt above suggests that CESC was not recovering from CPUC the full costs of providing services to CPUC. If that was the case, please confirm that these types of amounts were recovered from CPUC between 2012 and 2017.

CPUC Response: From 2012 to 2017, CPUC was charged for services provided to it by CESC in order that CPUC could operate and maintain its distribution system. The charges were determined through an allocation methodology that resulted in a charge to CPUC from CESC based on the time and resources used by CESC in serving CPUC's needs, with the remaining resources being made available to CESC to try and generate non-distribution related revenue. Prior to the decision to amalgamate it was determined that the methodology used by CESC to allocate resources to CPUC resulted in unsustainable revenue shortfalls for CESC, as it could not generate enough revenue from non-CPUC customers with its remaining resources to cover its expenses, let alone generate a profit; one material contributing factor to this inability was the reduction in revenue from Hydro One related work, as Hydro One drastically reduced the amount of work it issued to CESC as a result of issues raised by Hydro One's unionized workforce. This resulted in a decision to stop operating CESC as a separate entity. At the same time, CPUC still required full access to all of the resources housed within CESC in order to responsibly operate and maintain its distribution system. There were two ways for CPUC to ensure it maintained access to those resources; it could simply transfer the assets and labour force from CESC to CPUC prior to CESC's dissolution, or it could amalgamate with CESC. In either case the resulting impact was going to be that the regulated entity would be bearing, in the first instance, the full cost of the resources originally held by CESC, with an ability, assuming it would be permitted to do so by the OEB, to offset some of those costs by continuing to provide services to non-CPUC customers to generate some additional revenue; in other words CPUC would cease operating as a virtual utility.

CPUC notes that its 2019 Cost of Service Application was based on a cost structure where all the resources formerly housed within CESC became housed within the regulated entity, such that CPUC ceased to operate as a virtual utility that received a charge for services from an affiliate for the purposes of setting rates. As CPUC's 2019 rates were approved on this basis, CPUC would suggest that the Board has already determined that CPUC costs going forward on the basis of a cost structure premised on an amalgamation (or alternatively the acquisition of CESC's resources by CPUC) rather than as a virtual utility are reasonable.

OEB 1-Staff-5

Ref: Application Form, s.1.6.7

Preamble:

CPUC states in the Application Form that the only costs incurred for the amalgamation were legal fees totaling $3,929.85 and that no financing was required.

Questions:

a) Please confirm that $3,929.85 was the total cost incurred for the amalgamation to occur. If there were any other transaction/transition costs incurred as part of the amalgamation, please describe the activities and the associated cost(s).

   CPUC Response: CPUC confirms that $3,929.85 were the costs related to the amalgamation on January 2018. There were no other costs related to the original amalgamation. CPUC notes that it is incurring costs for this Application and that depending on the result of this Application there may be further costs if, for example, CPUC has to go back and restate the financial statements for CESC and CPUC from January 1, 2018 forward and essentially rebuild the corporate lives of those entities if the Board does not give retroactive approval for the amalgamation to January 1, 2018.

b) Please confirm which party (i.e., CPUC or CESC) paid the $3,929.85 and how CPUC ensured that the cost was not included in its revenue requirement to be recovered from ratepayers.

   CPUC Response: CPUC incurred this cost. CPUC confirms that it was included in its 2018 OM&A as a one time cost, so it was not directly recovered from ratepayers and was not included in the 2019 Revenue Requirement on which CPUC's rates are based such that it was not recovered from ratepayers either directly or indirectly. CPUC also notes that to the extent there are any further costs incurred, including, for example, for this Application (or to the extent that the pre-amalgamation CESC and CPUC entities incur costs to restate their financial statements, etc.) those costs will not be collected from ratepayers as CPUC's 2019 rates have already been determined without considering those costs and CPUC is not proposing any other mechanism that would allow it to recover those costs from ratepayers.

<u>OEB 1-Staff-6</u>

Ref: Application Form, s.1.5.3

Preamble:

In s.1.5.3 of the Application Form, CPUC states:

> CPUC operates under Electricity Distribution Licence ED-2002-0528 (Licence). It is CPUC's understanding that the license will have to be transferred to Amalco on approval of the amalgamation by the OEB.

Questions:

a) Please confirm whether CPUC is requesting, as part of this application, to transfer the Licence and rate orders to the amalgamated entity, pursuant to section 18 of the OEB Act, and confirm that the amalgamated entity's name is CPUC (i.e., the amalgamated entity's name is not changing). If not part of this application, please advise when CPUC intends to formally request transfer of the Licence and rate orders to the amalgamated entity.

   CPUC Response: CPUC does not intend on formally changing its name. CPUC does note that it obtained the right to use the name "Chapleau Hydro" and currently operates under "Chapleau Hydro." CPUC confirms that it is requesting, as part of this application, to transfer the Licence and rate orders to the amalgamated entity, pursuant to section 18 of the OEB Act. If the Board grants CPUC's request that its amalgamation be approved effective January 1, 2018, then CPUC would ask that the transfer of the Licence and rate orders also be made effective January 1, 2018.

b) If the name of the amalgamated entity is changing (e.g., Chapleau Hydro) following the amalgamation, please confirm that CPUC will also make a formal request for a licence amendment pursuant to section 74 of the OEB Act.

   CPUC Response: see response to a) above.

c) Please confirm whether CPUC is requesting permission for the amalgamated entity to continue to track costs to existing deferral and variance accounts.

   CPUC Response: CPUC confirms that it is requesting permission for the amalgamated entity to continue to track costs to existing deferral and variance accounts; in the event the Board grants CPUC's request that its amalgamation be approved effective January 1, 2018, then CPUC would ask that the permission to track costs to existing deferral and variance accounts also be made effective January 1, 2018.

OEB 1-Staff-7

Ref: Cover Letter, Application Form

Preamble:

CPUC noted in the cover letter accompanying its Application Form that it discovered during the course of its 2019 Cost of Service application (EB-2018-0087) that it had inadvertently failed to obtain the OEB's leave to amalgamate under Section 86(1)(c) of the OEB Act.

Questions:

a) Please provide context for this oversight.

   CPUC Response: At the time CPUC, CESC and their shareholder contemplated and eventually entered into an amalgamation agreement and obtained a Certificate of Amalgamation none of the internal staff involved in the amalgamation nor any of the external parties engaged for the purposed of preparing and executing the amalgamation were aware of the requirement under s. 86(1)(c) of the OEB Act that CPUC, the regulated entity, seek leave to amalgamate from the OEB. CPUC can only, in hindsight, suggest that because the amalgamation was between two affiliates owned entirely by the same shareholder, and that the amalgamation did not involve the merging of two or more regulated distributors with distinct distribution systems and customer bases but rather only involved the combination of a single regulated distributor with the company that housed the staff and assets the distributor was already using to operate and maintain its distribution system that the internal staff and external third parties involved in the amalgamation (incorrectly) treated the amalgamation as though it were simply a transfer of assets.

b) Please file all relevant documentation pertaining to this amalgamation application that was filed as part of the evidence in CPUC's 2019 Cost of Service application (i.e., CPUC and CESC financial statements; organizational charts, resolution for amalgamation, etc.).

   CPUC Response: The information pertaining to the amalgamation that was filed as part of the evidence in EB-2018-0087 can be found at Appendix C.

<u>OEB 1-Staff-8</u>

Ref: CPUC 2018 Performance Scorecard

Preamble:

OEB staff has reviewed CPUC's 2018 Performance Scorecard and noted an increasing trend for both the Average Number of Hours that Power to a Customer is Interrupted (SAIDI) and Average Number of Times that Power to a Customer is Interrupted (SAIFI) from 2014 to 2018.

In s.1.6.2 of the Application Form, CPUC states:

> There is no impact to the adequacy, reliability and quality of electrical service as a result of the transaction. The equipment and personnel from CESC will continue to provide the same level of service as part of Amalco.

Questions:

a) Please explain the increasing trend in CPUC's SAIDI and SAIFI scores from 2014 to 2018 and explain how CPUC plans to ensure quality and reliability of electricity service.

   CPUC Response: A detailed analysis of the utility's SAIDI and SAIFI and overall reliability was presented in Section 2.3.1 of the Distribution System Plan filed as part of CPUC's Cost of Service Application.EB-2018-0087. The relevant section is reproduced in Appendix A of these responses.

b) Please more fully describe how CPUC will, at a minimum, maintain current service levels. Please provide examples as to where/how the amalgamation will maintain or improve service levels.

   CPUC Response: As stated in s.1.6.2 of the Application Form, the amalgamation has no impact on prices to the consumers. Whether the transfer of the assets and personnel had been facilitated by either a direct asset transfer or indirectly through amalgamation, the practical effect on CPUC's customers was going to be identical. Adding to this and as explained in CPUC's Business Plan, which was filed as part of EB-2018-0087, CPUC takes pride in servicing its customers and has made system reliability a primary goal, designed to ensure appropriate management of its assets to provide a sustainable and reliable service to its customers.

Not considering the Loss of Supply, which is beyond CPUC's control, SAIDI and SAIFI have remained relatively constant over the past year.

The number of outages due to defective equipment has decreased over time. This as a direct result of CPUC's continuing effort of mitigating outages where possible. However, a significant increase in customer interruption can be attributed to the Loss of Supply, which is the major contributor to customer interruptions. In 2018 CPUC reported several outages as a result of defective equipment. However, those were minor and quickly resolved. Defective equipment can be attributed to aging infrastructure. Aas part of its Cost of Service CPUC filed a DSP, which provided a detailed replacement plan and schedule for its distribution system.,

CPUC plans on continuing its replacement strategy as proposed in the DSP. The proposed investments will replace assets at or past useful life, which will help to reduce or maintain the number of failures experienced from defective equipment. CPUC's intended action for these measures is to monitor the performance.

CPUC will continue to work towards fulfilling our goal of following the DSP going forward, which has been approved in our recent rate application. The future planned construction and conversion of the existing aging 4.16kv circuits to the new 25kv level will improve the future reliability of supply by reducing the frequency of outages.

OEB 1-Staff-9

Ref: Application Form, s.1.7.1

Preamble:

In s.1.7.1 of the Application Form, CPUC states:

> The transaction has had no impact on economic efficiency and cost-effectiveness. The service territory remains the same, the customers did not change, IT services are the same, accounting remains the same, and there are no changes to customer service.

Questions:

a) Did CPUC actively seek to identify and implement efficiencies as part of the amalgamation process? If yes, please explain. If no, please explain why not?

   CPUC Response: The amalgamation did not and was not intended to change in any material way the manner in which CPUC operated and maintained its system. Both prior to and post amalgamation, CPUC relied on a total staff complement of 5 people, with no material opportunity to reduce either the staff complement, or the costs related to those staff members. The size and nature of CPUC's distribution system and the size and nature of its customer base remained identical. Under such circumstances the only material change resulting from amalgamation was the way in which the costs to operate and maintain the system were accounted for (i.e. as a single entity as opposed to a virtual utility utilizing a services corporation for its resource requirements), a change which has already been incorporated into CPUC's 2019 rates.

b) Please confirm the accounting policies used by CPUC and CESC both before and after January 1, 2018 (e.g., MIFRS, CGAAP, etc.).

   CPUC Response: Financial statements are prepared in accordance with IFRS (MIFRS for this purpose).

OEB 1-Staff-10

Ref: Application Form, s.1.8.1

Preamble:

In s.1.8.1 of the Application Form, CPUC states:

> It was determined that there was not a significant differential between the book value of the assets and the fair value as of the date of amalgamation given the age of the assets transferred over to Amalco. Therefore, this process was deemed appropriate.

Questions:

a) How did CPUC determine the net book value of the assets?

CPUC Response: The NBV of the assets for accounting purposes was obtained from the capital asset continuity schedule for the CESC assets as of the date of amalgamation. The rates used to depreciate the assets were included within the financial statements. The assets were carried over to the new corporation at this value.

b) Please explain the reasoning for this approach and who determined this was an appropriate approach (e.g., an independent third party, CPUC's management, etc.).

CPUC Response: Given that this was deemed to be an amalgamation between two organizations who are owned by a common shareholder (being the Township of Chapleau) this was deemed to be appropriate. No valuation of the assets was necessary given that the organization is under common control.

OEB 1-Staff-11

Ref: Application Form, s.1.6.9

In s.1.6.9 of the Application Form, CPUC states:

> The benefits of the transaction to the customers relate to the elimination of the Virtual Utility Structure. The result is more transparency in rate costs without the affiliate, as there is no need to maintain a methodology for the allocation of costs between affiliates. There are no additional costs as per 1.6.2; the amalgamation itself has no impact on the costs to customers.

Question:

a) Please describe, and provide examples, how the amalgamation satisfies the “no harm” test that the OEB must apply when considering a merger or amalgamation, and address the following factors:

- Price, Economic Efficiency and Cost Effectiveness
    - Provide a year over year comparative cost structure analysis for the proposed transaction comparing the costs pre-/post-amalgamation
    - Provide a comparison of the OM&A cost per customer pre-/post-amalgamation
    - Identify all incremental costs incurred by the amalgamation (e.g., legal, regulatory), incremental merged costs (e.g., employee severances), and incremental on-going costs (e.g., purchase and maintenance of new IT systems) – be sure to identify how the amalgamated entity intends to finance these costs
- Reliability and Quality of Electricity Service
    - Describe how the distribution system within the service area will be operated (e.g., any changes to operation centre locations, response times, staff experience in operating the system, etc.)
- Financial Viability
    - Provide details on the financing of the transaction

CPUC Response: CPUC respectfully submits that the question as asked contemplates an amalgamation of a scope and complexity that does not reflect what was contemplated by CPUC when amalgamating with CESC.

Prior to amalgamation CPUC relied on access to a staff of 5 who ostensibly worked for CESC, along with a bundle of assets owned by CESC that the staff had access to when operating and maintaining CPUC's distribution system. Post amalgamation (recognizing that whether the amalgamation is effective January 1, 2018 remains an issue to be determined by the Board) the amalgamated entity continued to access the same staff of 5 with the same bundle of assets; there is no material difference between the pre and post amalgamation cost structures that CPUC can provide an analysis for. The distribution system remained the same in scope and nature. The customer base remained the same in scope and nature. From an operational standpoint there was simply no change in how CPUC operated or the costs incurred by CPUC to operate it including no material incremental costs, nor was there any reasonable expectation that the way it operated would change or that there would be ongoing incremental costs incurred as a result of the amalgamation.

The cost impact of the amalgamation to customers relates only to the impact of CPUC having to bear, in the first instance, the full cost of the same staff of 5 and the same related resources it already required to operate and maintain its distribution system with the opportunity, assuming the Board allows an exemption under s. 71(4) of the OEB Act, to offset some of those costs by providing services to non-CPUC customers, rather then paying to CESC an allocation of those costs and have CESC bear any shortfall in revenue as a result of the inability of CESC to generate enough revenue to offset its total cost structure. As explained in the application and in these interrogatories, CPUC had no option to continue using CESC to house the staff and resources it required to continue on as a virtual utility; beginning in 2018 CESC was no longer going to operate, such that CPUC either had to have the staff of 5 and the related resources transferred to it (which would not have required OEB approval under s. 86(1)(c) of the OEB Act) or amalgamate with CESC in order to access that same staff of 5 and related resources directly. Put another way, the relevant comparison is not between a CPUC that operated as a virtual utility with CESC as an affiliated services company and the proposed amalgamated entity; the relevant comparison is between a CPUC that was forced to acquire the assets of CESC upon the cessation of CESC and the proposed amalgamated entity. On the basis of that comparison there is, CPUC asserts, no appreciable difference between the pre and post amalgamated companies from the perspective of ratepayers.

CPUC has reproduced an excerpt of Exhibit 4-Operational Expenses at Appendix B. The information shows a comparison between 2017 pre-amalgamation and

2018 post amalgamation. However, CPUC respectfully notes that the Board has reviewed the cost structure proposed by CPUC post amalgamation, a structure based on a presumption that the amalgamation would be approved as proposed by CPUC, and determined that the costs that flow from that structure, notwithstanding that the OEB had not yet provided approval for the amalgamation, provided a reasonable basis for setting CPUC's rates going forward in 2019.

OEB 1-Staff-12

Ref: Certificate of Amalgamation

Preamble:

The Certificate of Amalgamation issued by the Ministry of Government and Consumer Services is dated January 1, 2018.

Section 86(6.2) of the OEB Act states:

> (6.2) A certificate of amalgamation endorsed by the director appointed under section 278 of the *Business Corporations Act* is void if it is endorsed before leave of the Board for the amalgamation is granted. 2003, c. 3, s. 55 (2).

Question:

a) Please describe the implications that would arise as a result of the Certificate of Amalgamation being voided given that it was issued before this application for leave to amalgamate was filed with the OEB. In your response, please be sure to discuss implications including, but not limited to, the following:

   - Impacts on accounting and tax filings of CPUC and CESC for 2018 and 2019 and whether, for example, financial statements and/or tax filings would have to be revised

   - Please provide the costs that would be incurred to revise financial records, tax filings and any other procedures that may be required

   - Impacts on CPUC and/or CESC's financial and contractual obligations

CPUC Response: CPUC asks that Board provide an effective date of January 1, 2018 for the approval of its proposed amalgamation under s. 86(1)(c) of the OEB Act such that the Certificate of Amalgamation would not be void under s. 86(6.2) of the OEB Act. In the event the Board does not make such an order CPUC anticipates the following impacts:

The voidance of the Certificate of Amalgamation, even if the Board ultimately granted approval of an amalgamation going forward, would require CPUC to go back to January 1, 2018 and effectively rebuild the corporate and financial "lives", for both CPUC and CESC from that date forward, as well as restating the financials for their shareholder, including for tax purposes, since CPUC and CESC would no longer be considered to have dissolved on January 1, 2018. CPUC has made inquires with respect to the cost of this undertaking; preliminary estimates would suggest that such work could cost between $25,000 and $50,000. To put this amount in perspective, the 2019 approved ROE for CPUC was 8.98% or $65,439.

Contracts and financial obligations from January 1, 2018 to the present have been entered into, ostensibly, by the amalgamated entity which, if the amalgamation is not deemed effective January 1, 2018, means that such obligations would become subject to challenge with respect to their validity. CPUC would argue that the failure of the amalgamation resulted in the continuation of CPUC and CESC, and that accordingly at least some if not all of the contractual and financial obligations would become those of either one of or both the predecessor companies, but precisely what would happen to those obligations has not been tested.

Appendix A

Excerpt of DSP

System Reliability

Methods and Measures

The reliable service supply is primarily measured by internationally accepted indices SAIDI and SAIFI as defined in the OEB's *Electricity Reporting & Record Keeping Requirements* dated May 3, 2016. SAIDI, or the System Average Interruption Duration Index, is the length of outage customers experience in the year on average, expressed as hours per customer per year. It is calculated by dividing the total customer hours of sustained interruptions over a given year by the average number of customers served. SAIFI, or the System Average Interruption Frequency Index, is the number of interruptions each customer experiences in the year on average, expressed as the number of interruptions per year per customer. It is calculated by dividing the total number of sustained customer interruptions over a given year by the average number of customers. An interruption is considered sustained if it lasts for at least one minute.

$$SAIDI = \frac{Total\ customer\ hours\ of\ sustained\ interruptions}{Average\ number\ of\ customers\ served}$$

$$SAIFI = \frac{Total\ customer\ interruptions}{Average\ number\ of\ customers\ served}$$

Loss of supply, LOS, outages occur due to problems associated with assets owned by another party then CPUC or the bulk electricity supply system. CPUC tracks SAIDI and SAIFI including and excluding LOS. Major Event Days, MEDs, are calculated using the IEEE Std 1366-2012 methodology. MEDs are then confirmed by assessing whether interruption was beyond the control of CPUC (i.e. force majeure or LOS) and whether the interruption was unforeseeable, unpredictable, unpreventable, or unavoidable.

Historical Performance

CPUC's reliability indices for 2013-2017 are shown in the figures below.

Figure 1 Performance Measure - SAIDI

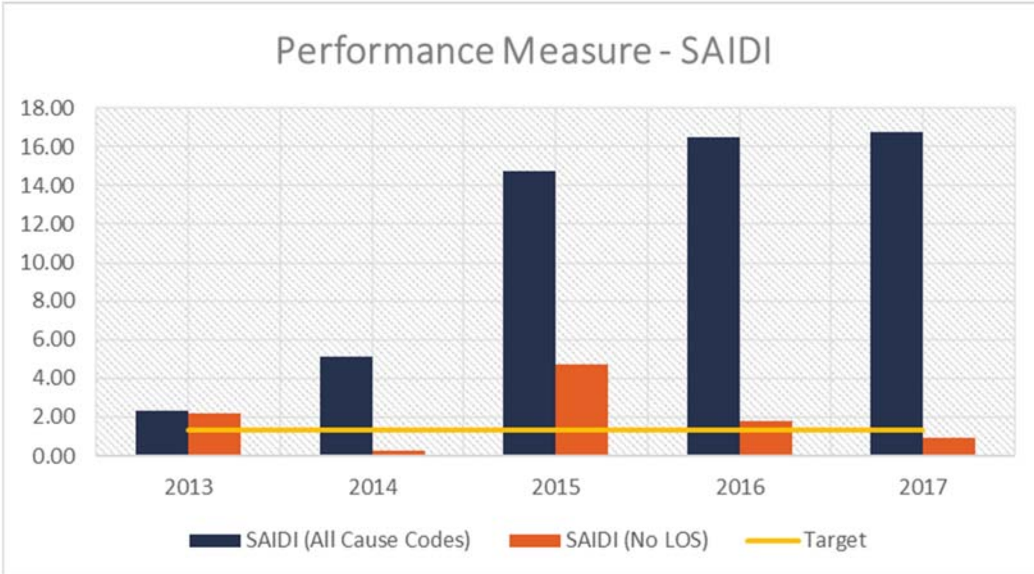
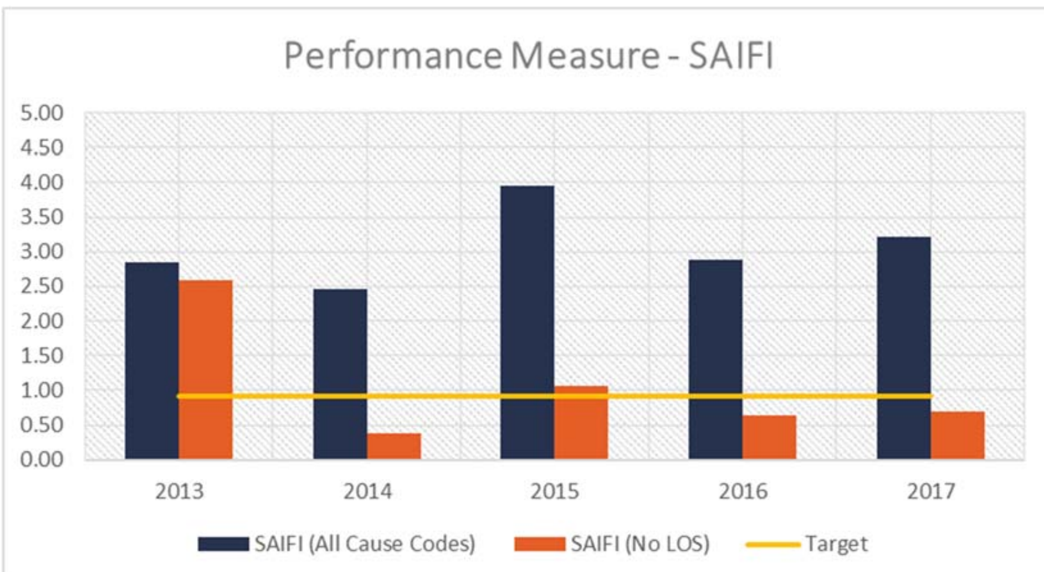


Figure 2 Performance Measure - SAIFI



The variance in 2013 SAIDI and SAIFI occurred when CPUC performed oil reclamation and re-inhibit treatment to its transformer station. This required three half-hour scheduled power outages to 1,001 customers. The future planned construction of distribution circuits to convert the existing aging 4.16kV circuits to the new standard of 25 kV level will improve the future reliability of supply be reducing the frequency of outages. Additionally, the variance in 2015 is due a higher amount of Foreign Interference experienced on the system as well as Scheduled Outages. Details on cause codes per year are provided below.

Outage Details for Years 2013-2017

The following sections and figures provide the breakdown of historical outages for years 2013-2017 regarding to number of outages, number of customers interrupted, and number of customer hours experienced by the outages. CPUC has not reported any MEDs between the years 2013 to 2017 and therefore are not included in the analysis.

Outages Experienced

Figure 3 presents the summation of outages experienced at CPUC with and without Loss of Supply ("LOS"). There is a relatively constant trend in the number of outages experienced without considering LOS. Table 1 presents the count of outages broken down by cause code. Additionally, Figure 4 and Table 2 present the main contributors to outages for years 2013 to 2017. Scheduled Outages and Defective Equipment contribute to half of the outages experienced at CPUC.

Figure 5 presents the number of outages related to defective equipment. An increasing historical trend is observed due to the aging distribution system. This supports CPUC's DSP justification requiring investments into System Renewal.

Figure 3 Total Number of Outages (2013-2017)

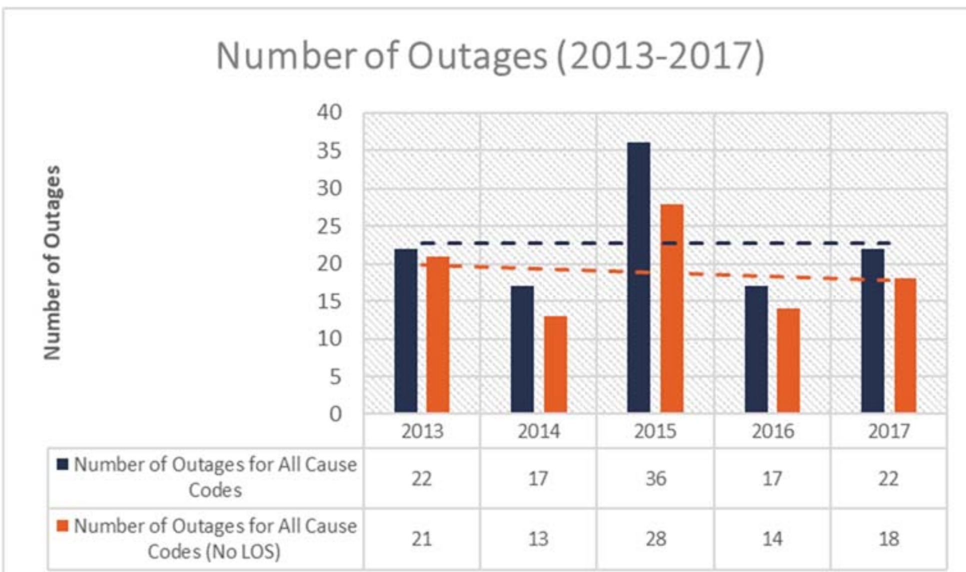


Table 1 Outage details broken down into cause codes (2013-2017)

Cause	2013	2014	2015	2016	2017
Scheduled	8	6	8	3	7
Loss of Supply	1	4	8	3	4

Tree Contact	0	0	1	0	0
Defective Equipment	9	2	6	5	6
Adverse Weather	0	1	4	2	3
Human Element	1	0	0	0	1
Foreign Interference	3	4	8	4	1
Lightning	0	0	1	0	0

Figure 4 Outage Count contribution by Cause Code

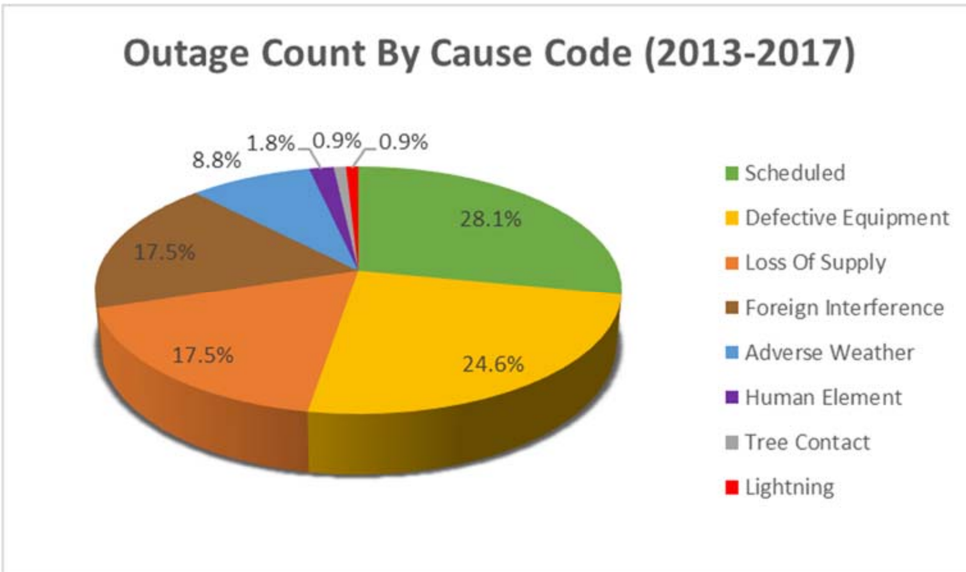
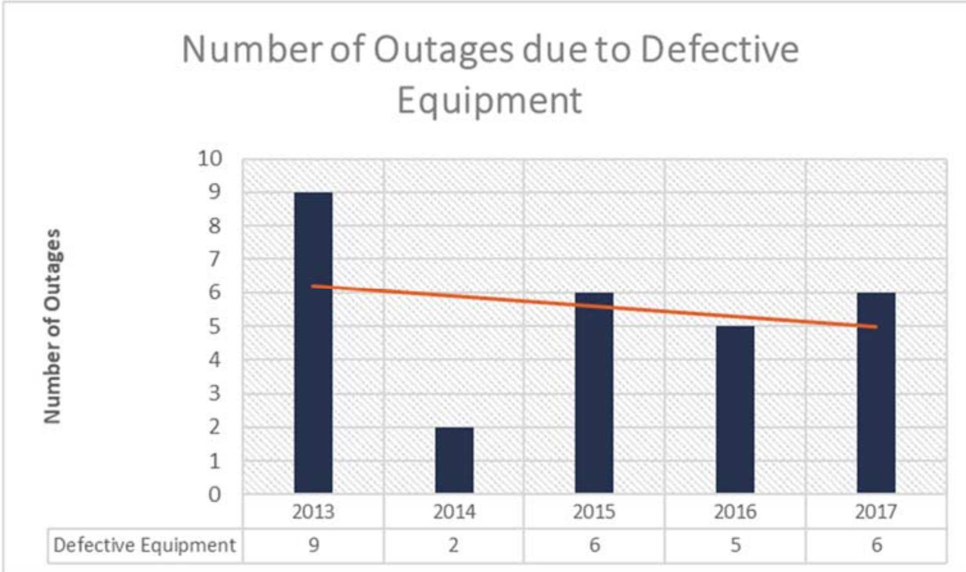


Table 2 Sum outage count and contribution by cause code

Cause Code	Total Outages (2013-2017)	Percent of Total Outages (2013-2017)
Scheduled	32	28.07%
Defective Equipment	28	24.56%
Loss of Supply	20	17.54%
Foreign Interference	20	17.54%
Adverse Weather	10	8.77%
Human Element	2	1.75%
Tree Contact	1	0.88%
Lightning	1	0.88%

Figure 5 Number of Outages due to Defective Equipment



Customers Interrupted

Figure 6 presents the summation of customers interrupted at CPUC with and without LOS. A gradual decreasing trend can be seen on customers interrupted without LOS. This is a result of CPUC's continuing effort of mitigating outages where possible. However, a significant increase of customer interrupted can be seen with the inclusion of LOS figures. Table 3 presents the count of customers interrupted by cause code. Additionally, Figure 7 and Table 4 present the main contributors to customers interrupted for years 2013 to 2017. It can be seen LOS and Scheduled Outages are primary contributors for customers interrupted.

Figure 8 presents the number of customers interrupted related to defective equipment. An increasing historical trend is observed due to the aging distribution system. This supports CPUC's DSP justification requiring investments into System Renewal.

Figure 6 Total Number of Customers Interrupted (2013-2017)

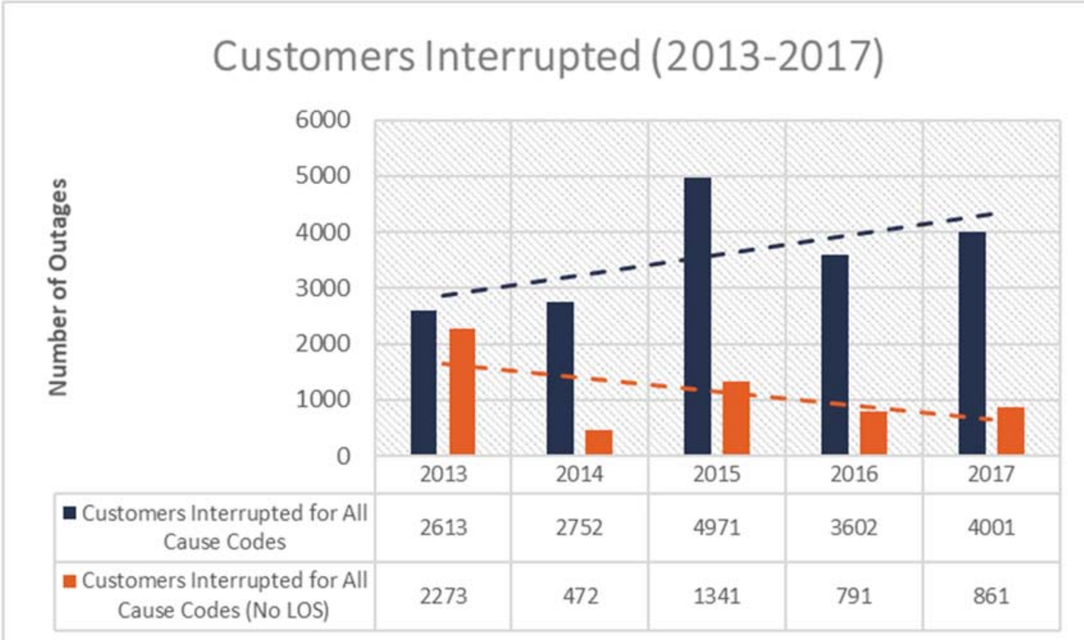


Table 3 Customers interrupted details broken down into cause codes (2013-2017)

Cause	2013	2014	2015	2016	2017
Scheduled	2206	50	954	339	50
Loss of Supply	340	2280	3630	2811	3140
Tree Contact	0	0	1	0	0
Defective Equipment	39	26	24	191	99
Adverse Weather	0	208	43	240	694
Human Element	7	0	0	0	11
Foreign Interference	21	188	274	21	7
Lightning	0	0	45	0	0

Figure 7 Customers Interrupted contribution by Cause Code

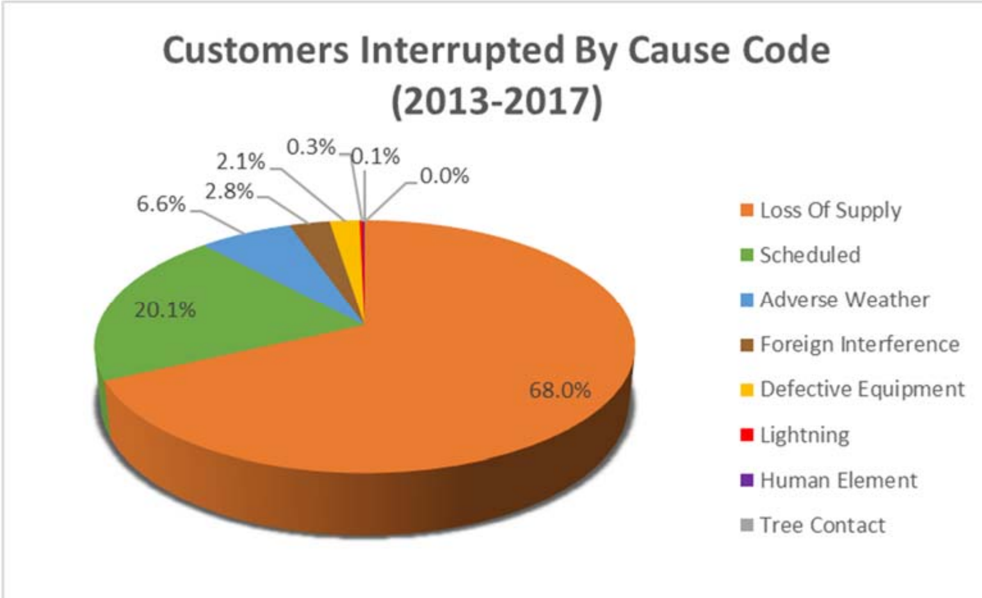
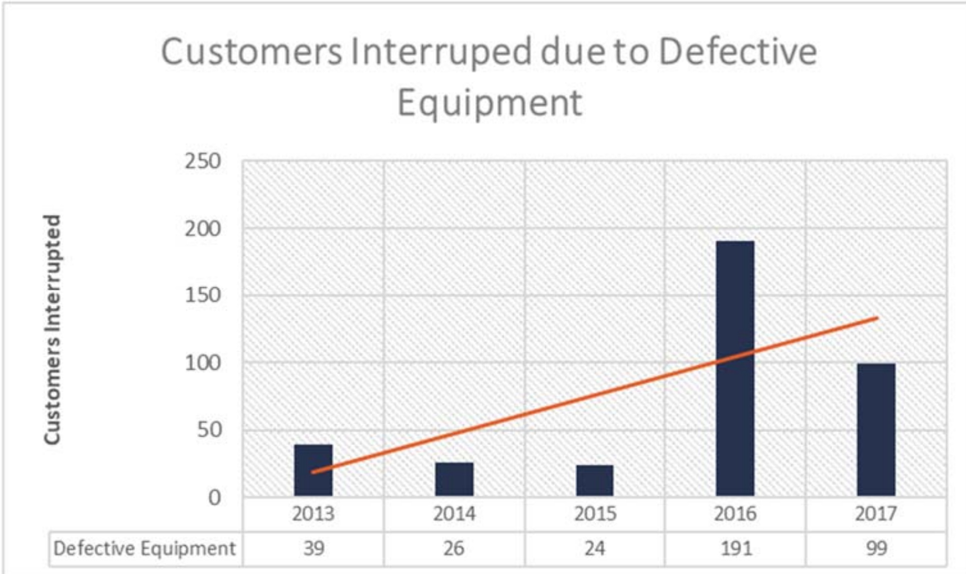


Table 4 Sum Customers Interrupted and contribution by cause code

Cause Code	Sum Customers Interrupted (2013-2017)	Percent of Customers Interrupted (2013-2017)
Loss of Supply	12201	68.01%
Scheduled	3599	20.06%
Adverse Weather	1185	6.61%
Foreign Interference	511	2.85%
Defective Equipment	379	2.11%
Lightning	45	0.25%
Human Element	18	0.10%
Tree Contact	1	0.01%

Figure 8 Number of Customers Interrupted due to Defective Equipment



Customer Hours Interrupted

Figure 9 presents the summation of customer hours experienced at CPUC with and without LOS. A very slight increasing trend on the number of customer hours experienced without LOS is observed. CPUC's continuing effort in mitigating outages and addressing issues within a timely manner prevents the trend from increasing drastically. However, an increasing trend of customer hours experienced including LOS is witnessed. Table 5 presents the count of customer hours by cause code. Additionally, Figure 10 and Table 6 present the main contributors to outages for years 2013 to 2017. LOS and Scheduled Outages contribute to a significant portion of the customer hours experienced at CPUC.

Figure 11 presents the number of outages related to defective equipment. An increasing historical trend is observed due to the aging distribution system. This supports CPUC's DSP justification requiring investments into System Renewal.

Figure 9 Total Number of Customer Hours Interrupted (2013-2017)

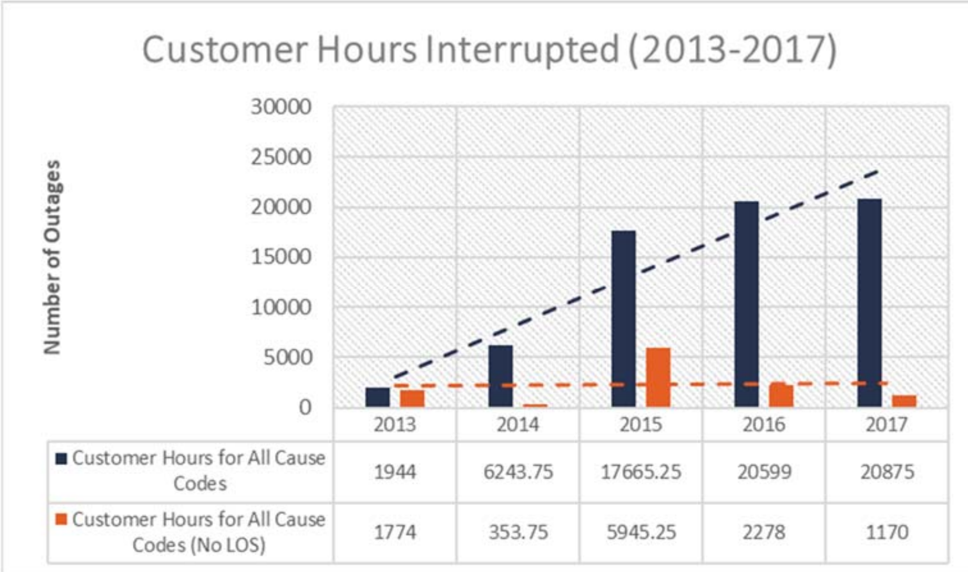


Table 5 Customer Hours interrupted details broken down into cause codes (2013-2017)

Cause	2013	2014	2015	2016	2017
Scheduled	1702.75	57	5605	1848.75	144.5
Loss of Supply	170	5890	11720	18321	19705
Tree Contact	0	0	0.25	0	0
Defective Equipment	41.25	8.75	34.5	208	129
Adverse Weather	0	104	49	135.25	878.5
Human Element	7	0	0	0	11
Foreign Interference	23	184	211.5	86	7
Lightning	0	0	45	0	0

Figure 10 Customer Hours Interrupted contribution by Cause Code

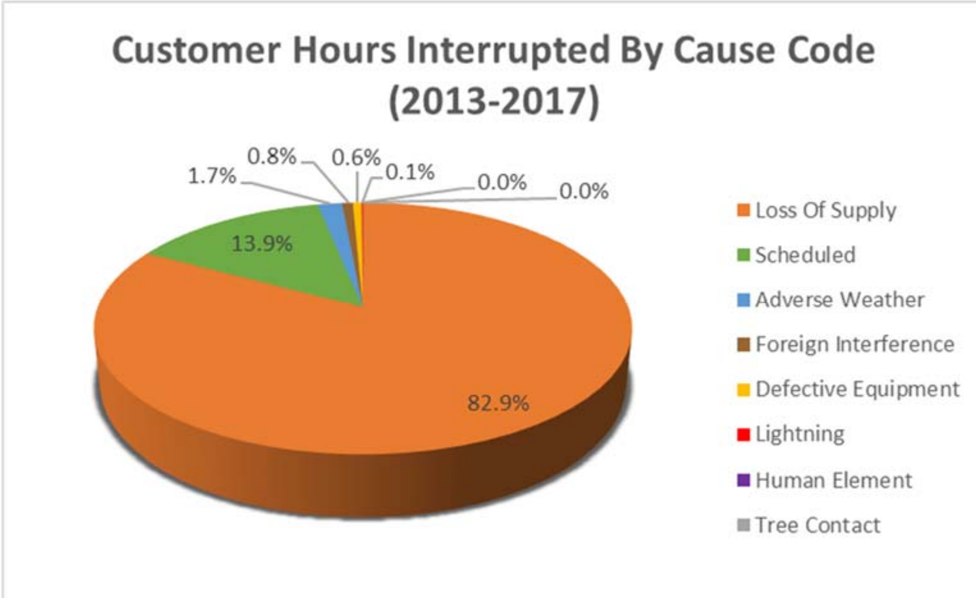
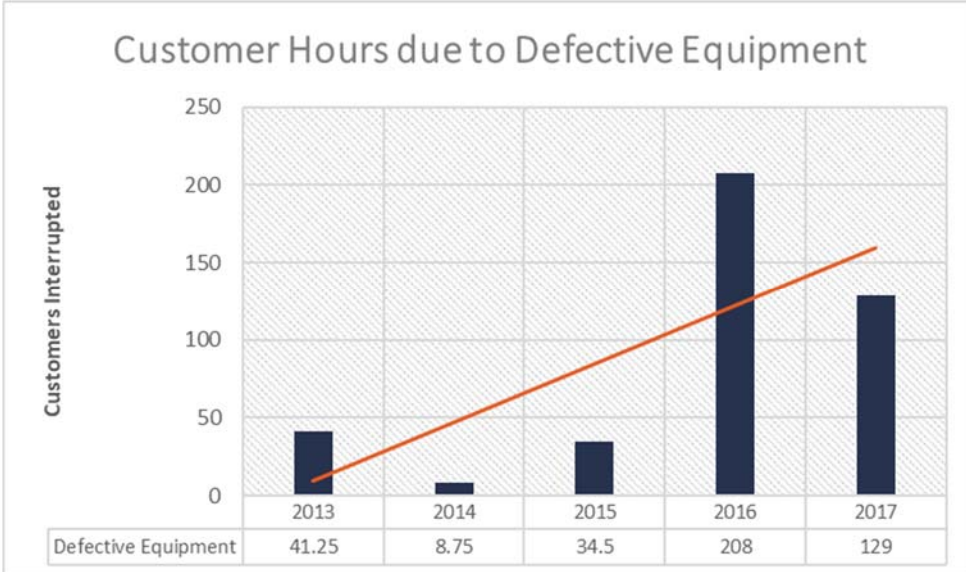


Table 6 Sum Customer Hours Interrupted and contribution by cause code

Cause Code	Sum Customer Hours Interrupted (2013-2017)	Percent of Customer Hours Interrupted (2013-2017)
Loss of Supply	55806	82.89%
Scheduled	9358	13.90%
Adverse Weather	1166.75	1.73%
Foreign Interference	511.5	0.76%
Defective Equipment	421.5	0.63%
Lightning	45	0.07%
Human Element	18	0.03%
Tree Contact	0.25	0.00%

Figure 11 Number of Customer Hours due to Defective Equipment



Performance Trends into the DSP

In the most recent year, 2017, CPUC has achieved its SAIDI and SAIFI targets. Through good asset management, CPUC has been able to achieve these targets and plans to continue the trend through the required investments proposed within this DSP. The proposed investments will replace assets at or past their typical useful life which will help to reduce or maintain the amount of failures experienced from defective equipment. CPUC's intended action for these measures is to monitor the performance.

Additionally, CPUC plans on utilizing specialized contractors in assisting with its Overhead Renewal program. These contractors will be able to perform a portion of the work without requiring a scheduled outage. CPUC expects this will reduce the impact of scheduled outages moving forward.

Appendix B

Excerpt of Excerpt of Exhibit 4 – Pre & Post Amalgamation OM&A Comparison

EXHIBIT 4 – OPERATING EXPENSES

2019 Cost of Service

Chapleau Public Utilities Corporation
EB-2018-0087

4.1 OVERVIEW

4.1.1 OVERVIEW

The operating costs found in this exhibit represent expenditures that are required to maintain and operate CPUC's distribution system assets at the targeted levels of performance, to meet customer expectations, ensure public and employee safety and provide quality service. These operating costs are necessary to comply with the Distribution System Code, environmental requirements, and government direction. OM&A expenses consist of, but are not limited to: the required expenditures necessary to maintain and operate CPUC's distribution system assets; the costs associated with metering, billing, and collecting from CPUC's customers; the costs associated with ensuring the safety of all stakeholders; and costs to maintain distribution service quality and reliability.

While preparing its 2018 Bridge and 2019 Test budgets, CPUC took into consideration the bill impacts associated with these OM&A costs. For the several iterations of the budget, the bill impacts were analyzed and the OM&A budget modified to minimize bill impacts to the customers as much as possible. CPUC's Board of Directors has been heavily involved in the determining of the final 2019 proposed budget and its customer engagement activities. In fact, the Board of Directors has met on a weekly or bi-weekly basis to review, revise and ultimately approve the 2019 OM&A budget.

CPUC's 2019 Test Year operating costs are projected to be $821,163, which represents an increase of $176,823 from its 2012 Cost of Service or 27.44%. Details are presented in Table 1 - Total OM&A below. Table 2 - Total OM&A shows historical and budgeted OM&A costs by major function.

Table 1 - Total OM&A

	2012 Board Approved	2019	Diff
Operations	$205,440	$242,760	$37,320
Maintenance		$1,600	$1,600
Billing and Collecting	$84,200	$133,730	$49,530
Community Relations	$600	$0	-$600
Administrative and General	$354,100	$433,375	$89,578
Total	$644,340	$821,778	$176,623
%Change (year over year)		**27.44%**	

Table 2 - Total OM&A

	Board Approved	2012	2013	2014	2015	2016	2017	2018	2019
Operations	$205,440	$289,711	$220,412	$223,211	$208,239	$236,332	$237,909	$247,400	$242,760
Maintenance	$0	$0	$0	$0	$0	$0	$0	$0	$1,610
Billing and Collecting	$84,200	$95,585	$115,086	$135,609	$129,895	$121,157	$121,220	$135,000	$133,730
Community Relations	$600	$115	$415	$415	$115	$415	$415	$0	$0
Administrative and General	$354,100	$285,195	$302,558	$385,438	$392,316	$386,133	$357,042	$427,004	$443,063
Total	**$644,340**	**$670,607**	**$638,471**	**$744,673**	**$730,565**	**$744,037**	**$716,586**	**$809,404**	**$821,163**
%Change (year over year)		4.1%	-4.8%	16.6%	-1.9%	1.8%	-3.7%	13.0%	1.5%

The total cost increased from 2013 to 2014, when our rates came into effect and remained fairly stable until 2018 when total rates went up by 13%. The increase can be attributed to two major drivers that impacted both the utility's overall costs. The first driver was the change in organizational structure from a virtual utility to a conventional utility which caused an increase in overall staffing costs. The methodology used to allocate corporate cost allocations was based on a one-way percentage which upon further analysis revealed that the utility had been benefiting from cost sharing opportunities with its affiliate at the detriment of the affiliate which ended up shutting its operations and doors on December 31, of 2017.

The second driver is related to changes in the managerial staffing. Up until 2016, CPUC operated with a Manager who supervised both the operations and administrative functions. The Secretary-Treasurer in question retired in 2016 and has since then been replaced by two managerial staff, 1) a former senior linesperson, now General Manager who oversees the operations and 2) a Manager of Finance who oversees the administrative side of the utility such as regulatory, accounts management, payroll, and all other administrative functions.

Billing and Collecting shows an increase of $50K which most of the increase can be attributed to going from bi-monthly to monthly billing. Regular costs related to billing are also subject to inflationary increases such as services, paper, stamps, and salaries. [1]

CPUC is of the opinion that there is a minimum cost required to operate any utility and that its proposed OM&A reflects this minimum required costs. That said, CPUC will continue to seek savings and efficiencies to minimize costs increases for its customers going forward. The proposed OM&A expenses for 2018-2019 are in line with what CPUC expects regular yearly OM&A costs will be going forward.

Specifics regarding year over year variances are presented in Section 4.2.2 of this Exhibit, and a comparison to an inflationary increase is presented at Section 4.3.2.

Inflation Rate and Assumptions

The CPI rate is a measure that can fluctuate significantly from quarter to quarter. Using the most recent rate does not always reflect the historical trends nor predicted trends; therefore CPUC typically uses the flat rate of 2% of inflation for budgeting purposes. The Bank of Canada aims to keep inflation at the 2% midpoint of an inflation-control target range of 1% to 3% and recently reported CPI median of 2%. Therefore, the utility deems it appropriate to use 2% as an inflation rate.

Other Assumptions

CPUC employees including Powerline Maintainer are non-unionized employees. (ref: Section 4.4). All non-unionized employees are adjusted on a yearly basis to reflect the inflation factor

[1] MFR - Brief explanation of test year OM&A levels, cost drivers, significant changes, trends, inflation rate assumed, business environment changes

(ref: Section 4.2.3). As of January 1, 2018, the utility no longer has any affiliates and is no longer a virtual utility [2](ref: Section 4.4). The utility does not expect any significant changes in its business environment (ref: Business Plan) and expects no growth going forward (ref: Exhibit 3). The utility does not expect to hire any additional employees in the 2018-2022 period and proposes to keep the same corporate structure going forward.

CPUC notes that it does not capitalize administrative burdens. Therefore, there are no increases in OM&A as a result of the MIFRS policy. Appendix 2-D Overhead Expenses is not applicable in CPUC's case.[3] [4]

OEB Appendix 2-JA below shows a summary of CPUC Operations, Maintenance and Administrative ("OM&A") costs as required by the OEB's filing guidelines.

Table 3 – OEB Appendix 2-JA – Summary of Recoverable OM&A Expenses[5]

	CGAAP	CGAAP	NEWGAAP	NEWGAAP	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS
	Board Approved	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Operations	$205,440	$289,711	$220,412	$223,211	$208,239	$236,332	$237,909	$247,400	$242,760
Maintenance	$0	$0	$0	$0	$0	$0	$0	$0	$1,610
Sub-Total	**$205,440**	**$289,711**	**$220,412**	**$223,211**	**$208,239**	**$236,332**	**$237,909**	**$247,400**	**$244,370**
%Change (year over year)		41.0%	-23.9%	1.3%	-6.7%	13.5%	0.7%	4.7%	-1.2%
%Change (Test Year vs Last Rebasing Year - Actual)									-15.7%
Billing and Collecting	$84,200	$95,585	$115,086	$135,609	$129,895	$121,157	$121,220	$135,000	$133,730
Community Relations	$600	$115	$415	$415	$115	$415	$415	$0	$0
Administrative and General +LEAP	$354,100	$285,195	$302,558	$385,438	$392,316	$386,133	$357,042	$427,004	$443,063
Sub-Total	**$438,900**	**$380,896**	**$418,059**	**$521,463**	**$522,325**	**$507,705**	**$478,677**	**$562,004**	**$576,793**
%Change (year over year)		-13.2%	9.8%	24.7%	0.2%	-2.8%	-5.7%	10.7%	2.6%
%Change (Test Year vs Last Rebasing Year - Actual)									51.4%
Total	**$644,340**	**$670,607**	**$638,471**	**$744,673**	**$730,565**	**$744,037**	**$716,586**	**$809,404**	**$821,163**
%Change (year over year)		4.1%	-4.8%	16.6%	-1.9%	1.8%	-3.7%	13.0%	1.5%

[2] MFR - Identification of all shared services among affiliates and parent company; identification of the extent to which the applicant is a "virtual utility".
[3] MFR - Identification of change in OM&A in test year in relation to change in capitalized overhead.
[4] MFR - OM&A variance analysis for test year with respect to bridge and historical years; Appendix 2-D
[5] MFR - Summary of recoverable OM&A expenses; Appendix 2-JA

	CGAAP	CGAAP	NEWGAAP	NEWGAAP	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS
	Board Approved	2012	2013	2014	2015	2016	2017	2018	2019
Operations	$205,440	$289,711	$220,412	$223,211	$208,239	$236,332	$237,909	$247,400	$242,760
Maintenance	$0	$0	$0	$0	$0	$0	$0	$0	$1,610
Billing and Collecting	$84,200	$95,585	$115,086	$135,609	$129,895	$121,157	$121,220	$135,000	$133,730
Community Relations	$600	$115	$415	$415	$115	$415	$415	$0	$0
Administrative and General+LEAP	$354,100	$285,195	$302,558	$385,438	$392,316	$386,133	$357,042	$427,004	$443,063
Total	**$644,340**	**$670,607**	**$638,471**	**$744,673**	**$730,565**	**$744,037**	**$716,586**	**$809,404**	**$821,163**
%Change (year over year)		4.1%	-4.8%	16.6%	-1.9%	1.8%	-3.7%	13.0%	1.5%

**CPUC notes that it has modified appendix 2-JA so that it would fit on this page.*

4.2 SUMMARY & COST DRIVER TABLES

4.2.1 SUMMARY OF COST DRIVERS

In accordance with the OEB's minimum filing requirements, OEB Appendix 2-JB, OM&A Cost Drivers, presented below outlines the key drivers of OM&A costs over the period of 2014 to 2018. An overview of the reasons behind the costs drivers is presented following the table, and detailed explanations are presented in Section 4.2.2-Year over Year Variance Analysis.

Table 4 – OEB Appendix 2-JB – Recoverable OM&A Cost Driver Table[6]

Reporting Basis	**CGAAP**	**NEWGAAP**	**NEWGAAP**	**MIFRS**	**MIFRS**	**MIFRS**	**MIFRS**	**MIFRS**
OM&A	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
OM&A Cost Drivers >$10,000	$538,994.71	$670,607.00	$638,471.00	$744,673.00	$730,565.00	$744,037.00	$716,586.00	$809,404.00
Operation								
5020-Overhead Distribution Lines & Feeders - Operation Labour	$0		$13,425			-$15,186	$14,393	
5025-Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	$0	$19,069	-$14,106		$22,237	$10,150		
5065-Meter Expense	$0	-$90,957						
Billing and Collecting								
5310-Meter Reading Expense	$0	$12,578						
5335-Bad Debt Expense	$0		$23,102	-$10,871	-$12,137			
Administration								
5610-Management Salaries and Expenses	$0				$27,080	$21,847	39,378	
5630-Outside Services Employed	$0	-$18,883	$0	$61,550	-$33,890	-$11,678	-26,046	
5635-Property Insurance	$0				-$10,495			
5645-Employee Pensions and Benefits	$0					$10,536	$10,158	
5655-Regulatory Expenses	$0	$12,024	-$11,584				$33,581	$21,522
5665-Miscellaneous General Expenses	$0		$94,880	-$56,604		-$44,485		
Misc <1000	$131,612							
Misc <5000	$0	$34,031	$484	-$8,184	$20,677	$1,364	$21,354	-$9,763
Closing Balance	$670,607	$638,471	$744,673	$730,565	$744,037	$716,586	$809,404	$821,163

[6] MFR - Recoverable OM&A cost drivers; Appendix 2-JB

CPUC only experienced one expense above the materiality threshold of 50K during the 2012 to 2019 period. The variance in question which occurred in 2014 is highlighted and explained in the below section; however, CPUC felt that, given the size of the utility, variances above 10K were worth explaining.

5020-Overhead Distribution Lines & Feeders - Operation Labour

2017-2018; Increase of $14,393

This increase is for the most part due to 1) the allocation of the General Manager's wages from a part operations and part management to management only, 2) a 2% yearly increase in wages to reflect the rate of inflation, and 3) the hiring of a co-op summer student. Going forward, the General Manager's time will be solely allocated to management.

5610-Management Salaries and Expenses

2017-2018; Increase of $39,378

This increase is attributable to the affiliate (CESC) no longer benefiting from cost sharing opportunities with its affiliate. The increase is also partly due to a 1.5% increase in salary to account for inflation.

5630-Outside Services Employed

2017-2018; Decrease of $26,046

CPUC started working with Tandem Energy Services in early 2017 at which point, CPUC recorded the cost in 5630 - Outside Services. As of 2018, these costs are now allocated to 5655-Regulatory Costs.

5645-Employee Pensions and Benefits

2017-2018; Increase of $10,158

This increase is attributable to the affiliate (CESC) no longer benefiting from cost sharing opportunities with its affiliate.

5655-Regulatory Expenses

2017-2018; Increase of $33,581

At the beginning of 2017, CPUC hired Tandem Energy Services to assist the utility with its regulatory requirements CPUC entered in a 4-year contract with Tandem Energy

Services for regulatory services assisting the utility in creating a work environment that facilitates the understanding and support of the change. Services include;

- Drafting IRM and Cost of Service application including response to IRs and settlement proposal.
- Representing the utility in settlement conference, oral hearings.
- Financial analysis reporting (Tracking of Benchmarking, ROE, projected income, budget review).
- Update to Conditions of service.
- Assistance with RRR Annual filing.
- Creation of utility specific models to facilitate RRR reporting or Financial Reporting.
- Creation of Business Plan and Customer Outreach Plan.
- Regular updates to the Board of Director
- And provide any other regulatory services as they arise.

4.2.2 YEAR OVER YEAR VARIANCE ANALYSIS

Table 5 - 2018 Bridge vs. 2017 Actual

	2017	2018	Var $	Var %
Operations	$237,909	$247,400	$9,491	3.99%
Maintenance	$0	$0	$0	
Billing and Collecting	$121,220	$135,000	$13,780	11.37%
Community Relations	$415	$0	-$415	-100.00%
Administrative and General+LEAP	$357,042	$427,004	$69,962	19.59%
Total	**$716,586**	**$809,404**	$92,818	12.95%

The total OM&A expenses in 2018 are projected to be $92,818 greater than 2017 Actual.

The majority of the increase in OM&A is due to the change in corporate structure. 100% of administrative salaries and functions are now included in OM&A as are the salaries for the two management positions (5610-Management Salaries and Expenses)and the office personnel (5315-Customer Billing).

Because in this case the change in structure was caused primarily because the affiliate that was providing resources to the utility was ceasing operations, the cost sharing opportunities that CPUC enjoyed under the previous structure also ceased. The topic of non-utility related revenue offset is discussed in Exhibit 3 but to facilitate the understanding of cost trends, the relevant section of Exhibit 3 is replicated below.

Since Hydro One's closest office is 2 hours away, CPUC and Hydro One originally had an agreement that CPUC would perform capital and even office work on behalf of Hydro One for Hydro One customers whose property lay outside of CPUC's service area. At some point in the last ten years, Hydro One unionized employees complained that CPUC employees were taking work away from Hydro One employees. As a result, Hydro One started to discontinue using CPUC to tend to local service calls. The work taken away related to new and re-connections locates, check reads as well as small capital work. Until 2013 CPUC accepted bill payments from Hydro One customers in its office, but this service also stopped in 2013. The only service which remained was addressing trouble-calls. In late 2016 Hydro One unionized employees once again complained about CPUC doing trouble calls on behalf of Hydro One, and as a result, this service was also discontinued. There is still a remaining verbal agreement that CPUC will tend to 911 calls if needed, but most often, Hydro One will address the issues themselves.

The topic of compensation, as well as a detailed breakdown of historical costs (2012-2017) vs 2018 (new structure), is presented in Section 4.4.

Table 6 – 2019 Actual vs. 2018 Bridge

	2018	2019	Var $	Var %
Operations	$247,400	$242,760	-$4,640	-1.88%
Maintenance	$0	$1,610	$1,610	100.00%
Billing and Collecting	$135,000	$133,730	-$1,270	-0.94%
Community Relations	$0	$0	$0	0.00%
Administrative and General+LEAP	$427,004	$443,063	$16,059	3.76%
Total	**$809,404**	**$821,163**	$11,759	1.45%

The total increase from 2018 to 2019 in the amount of $11,759 in for the most part attributable to the increase in Administrative and General costs of $16,059 is for the most part due to new regulatory requirements (i.e. the requirement to produce a Distribution System Plan) and provisions for a costlier proceeding (i.e. the cost of an oral hearing, the cost of a community meeting, the cost of two interveners instead of one), should it be required. (Details are discussed in Section 4.6.3).

Most other costs have been curtailed to reflect a rate of inflation of 2% only.

The costs related to operation and maintenance and community relations remain stable with variances well below the materiality threshold.

Cost per Customer

OEB Appendix 2-L Employee Costs at Table 7 – OEB Appendix 2-L Recoverable OM&A Cost per Customer and FTE below shows an OM&A cost per customer of $679 in 2019 in comparison to $524 in the 2012. CPUC is aware of the significant impact this application has on its customer however, the utility feels that the costs presented in this application reflect the minimum costs required to operate a utility. In CPUC's view, the necessarily high cost of serving such a small customer base in such a remote area has been recognized by the provincial government in the extension of DRP funding towards CPUC's customers. That said, CPUC will continue to look for ways of finding efficiencies to help reduce costs for its customers.

Table 7 – OEB Appendix 2-L Recoverable OM&A Cost per Customer and FTE[7]

	2012	2013	2014	2015	2016	2017	2018	2019
Number of Customers	1,281	1,226	1,224	1,222	1,227	1,221	1,221	1,209
Total Recoverable OM&A	670,607	638,471	744,673	730,565	744,037	716,586	809,404	821,163
OM&A cost per customer	524	521	609	598	606	587	663	679
Number of FTEs	5	5	5	5	5	5	5	5
Customers/FTEs	256	245	245	244	245	244	244	242
OM&A Cost per FTE	134,121	127,694	148,935	146,113	148,807	143,317	161,881	164,233
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
OM&A Costs								
O&M	$289,711.10	$220,412.01	$223,210.54	$208,239.31	$236,332.09	$237,909.06	$247,400.00	$244,370.00
Admin Expenses	$380,895.82	$418,058.85	$521,462.73	$522,325.49	$507,704.50	$478,676.77	$562,004.00	$576,793.00
Total Recoverable OM&A from Appendix 2-JB [5]	$670,606.92	$638,470.86	$744,673.27	$730,564.80	$744,036.59	$716,585.83	$809,404.00	$821,163.00
Number of Customers [2,4]	1,281	1,226	1,224	1,222	1,227	1,221	1,221	1,209
Number of FTEs [3,4]	5	5	5	5	5	5	5	5
Customers/FTEs	256.20	245.10	244.70	244.30	245.40	244.20	244.20	241.76
OM&A cost per customer								
O&M per customer	$226.16	$179.85	$182.44	$170.48	$192.61	$194.85	$202.62	$202.16
Admin per customer	$297.34	$341.13	$426.21	$427.61	$413.78	$392.04	$460.28	$477.15
Total OM&A per customer	**$523.50**	**$520.99**	**$608.64**	**$598.09**	**$606.39**	**$586.88**	**$662.90**	**$679.31**
OM&A cost per FTE								
O&M per FTE	$57,942.22	$44,082.40	$44,642.11	$41,647.86	$47,266.42	$47,581.81	$49,480.00	$48,874.00
Admin per FTE	$76,179.16	$83,611.77	$104,292.55	$104,465.10	$101,540.90	$95,735.35	$112,400.80	$115,358.60
Total OM&A per FTE	$134,121.38	$127,694.17	$148,934.65	$146,112.96	$148,807.32	$143,317.17	$161,880.80	$164,232.60

'*Customers do not include connections

[7] MFR - Recoverable OM&A Cost per customer and per FTE; Appendix 2-L

Appendix C

Evidence filed as part of EB-2018-0087

Interrogatories and Supplemental Interrogatories related to the amalgamation

4-Staff-47

Ref: Exhibit 4, page 7 & 8
OEB Letter April 15, 2015, Notice of Amendment to a Code, Amendments to the Distribution System Code[1]

Preamble:

At the above noted first reference, CPUC stated the following:

> The total cost increased from 2013 to 2014, when our rates came into effect and remained fairly stable until 2018 when total rates went up by 13%. The increase can be attributed to two major drivers that impacted both the utility's overall costs. The first driver was the change in organizational structure from a virtual utility to a conventional utility which caused an increase in overall staffing costs. The methodology used to allocate corporate cost allocations was based on a one-way percentage which upon further analysis revealed that the utility had been benefiting from cost sharing opportunities with its affiliate at the detriment of the affiliate which ended up shutting its operations and doors on December 31, of 2017.
>
> The second driver is related to changes in the managerial staffing. Up until 2016, CPUC operated with a Manager who supervised both the operations and administrative functions. The Secretary-Treasurer in question retired in 2016 and has since then been replaced by two managerial staff, 1) a former senior linesperson, now General Manager who oversees the operations and 2) a Manager of Finance who oversees the administrative side of the utility such as regulatory, accounts management, payroll, and all other administrative functions.
>
> Billing and Collecting shows an increase of $50K which most of the increase can be attributed to going from bi-monthly to monthly billing. Regular costs related to billing are also subject to inflationary increases such as services, paper, stamps, and salaries.

At the above noted second reference, OEB staff notes that the transition to monthly billing was referenced in the OEB's letter of April 15, 2015, regarding Amendments to the Distribution System Code.[2] The OEB stated that with respect to the costs associated with the transition to monthly billing, distributors could apply for a deferral account with evidence demonstrating that such an account would meet the eligibility requirements.

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[1] EB-2014-0198
[2] EB-2014-0198

Questions:

a) Please explain the increase in billing and collecting expenses of $50k, even considering the move from bi-monthly billing to monthly billing.

b) Please explain the increase of $50k in OM&A from 2012 to 2019 for billing and collecting expenses, considering CPUC had other options in the past (e.g. an application for a deferral account) which may have helped to financially ease its transition to monthly billing.

Responses:

a) The cost of Sensus Canada to do the hourly meter reads increased 20k per year from 2012. The other major factor is the cost allocation between ESC and PUC. In 2012 PUC was paying 83.19% of the cost whereas now it's 100%.

b) Unfortunately, CPUC staff cannot answer or explain a managerial decision that was made by a previous manager which no longer works at the utility. That said, in preparing the application, CPUC's current management never saw any indication that the utility was in financial distress as a result of the change in policy. Nowhere in the application did CPUC state that going to monthly billing required the need for the use of a deferral and variance account. The utility does, however, believe that it should, like every other utility in the province, be able to recover through rates additional costs resulting from an OEB mandated policy which forced utilities to go to monthly billing.

4-Staff-48

Ref: Exhibit 4, Table 18 - OEB Appendix 2-K – Employee Compensation
Exhibit 4, Table 22 - Headcount (number of months worked per year)
Exhibit 4, page 8
Exhibit 4, page 8
Exhibit 4, page 30
Exhibit 4, page 43-44
Exhibit 4, page 9

Preamble:

At the above noted first reference, the following table is shown:

Table 18 - OEB Appendix 2-K – Employee Compensation[13]

	2012	2013	2014	2015	2016	2017	2018	2019
Number of Employees (FTEs including Part-Time)[1]								
Management (including executive)	1	1	1	1	2	2	2	2
Non-Management (union and non-union)	4	4	4	4	3	3	5	3
Total	5	5	5	5	5	5	7	5
Total Salary and Wages including overtime & incentive pay								
Management (including executive)	$59,567	$64,246	$60,027	$60,695	$87,775	$109,622	$149,000	$149,760
Non-Management (union and non-union)	$190,803	$197,902	$213,139	$202,384	$208,649	$190,688	$218,550	$212,764
Total	$250,370	$262,148	$273,166	$263,078	$296,424	$300,309	$367,550	$362,524
Total Benefits (Current + Accrued) -								
Management (including executive)	$2,925	$3,132	$3,216	$3,039	$5,924	$5,123	$11,302	$11,555
Non-Management (union and non-union)	$10,793	$11,172	$11,784	$11,419	$11,740	$9,343	$6,638	$6,642
Total	$13,718	$14,304	$15,000	$14,457	$17,664	$14,465	$17,940	$18,197
Total Compensation (Salary, Wages, & Benefits)								
Management (including executive)	$62,493	$67,378	$63,243	$63,733	$93,699	$114,744	$160,302	$161,315
Non-Management (union and non-union)	$201,596	$209,074	$224,923	$213,802	$220,389	$200,030	$225,188	$219,406
Total	$264,088	$276,452	$288,166	$277,536	$314,088	$314,775	$385,490	$380,721
Integrity Check from accounts 5020/5610/5615	$233,829	$244,225	$254,128	$246,457	$283,582	$287,044		
Wages posted to 5315	$30,259	$32,227	$34,038	$31,078	$30,506	$27,731		
Difference	$0	$0	$0	$0	$0	$0		

At the above noted second reference, Table 22 - Headcount (number of months worked per year), show a 2018 number of FTEs of five.

At the third above noted reference, CPUC stated the following:

> The CPI rate is a measure that can fluctuate significantly from quarter to quarter. Using the most recent rate does not always reflect the historical trends nor predicted trends; therefore CPUC typically uses the flat rate of 2% of inflation for budgeting purposes. The Bank of Canada aims to keep inflation at the 2% midpoint of an inflation-control target range of 1% to 3% and recently reported CPI median of 2%. Therefore, the utility deems it appropriate to use 2% as an inflation rate.

CPUC has proposed no increase in FTEs for 2019 (5 FTEs), compared to 2012 (5 FTEs). However, as per Table 18, the following increases in compensation over this time period have occurred:

- Total Salary and Wages (including overtime and incentive pay) has increased by $112,154, or 44.8% (6.4% per year)
- Total Benefits has increased by $4,479, or 32.7% (4.7% per year)
- Total Compensation has increased by $116,633, or 44.2% (6.3% per year)

OEB staff notes that the inflation rate is 1.5%.[3] At the above noted fourth reference, CPUC also stated that it uses an inflation rate of 2.0% for budgeting purposes. However, at the above noted fifth reference, CPUC stated that as of 2018, CPUC plans on using the adjusted price cap index as an inflation factor.

At the sixth above noted reference, CPUC stated the following:

> CPUC confirms that its staffing and compensation strategy has not changed significantly since its last Cost of Service but that the composition of its workforce has changed partly due to unforeseen events, and as a result of the retirement of the Secretary-Treasurer in 2016 whose role and function was distributed across the new General Manager and the new Manager of Finance.
>
> Concerning succession planning, CPUC is of the mind that finding qualified staff in smaller rural areas can be challenging. Therefore, similar to other smaller utilities, CPUC prefers to invest time and energy in training its existing employees rather than hiring workers that are already trained. CPUC's view is that the risks associated with hiring are mitigated because the employer already knows the employee and has experience with the employee's work ethic, ability to work with others and problem-solving skills. The learning curve is also cut down because its existing employees understand the utility and energy sector.
>
> In doing so, CPUC must also balance reliance on third-party contractors, and use its workforce to its best advantage for the customer and community. The utility evaluates on a yearly basis its agreements with its consultants and contractors to ensure that they are the best option possible for the utility.
>
> CPUC did not use specific benchmarking studies to determine salary ranges other than basing its inflation rate and salary at the Town of Chapleau.

At the seventh above noted reference, CPUC stated the following:

> CPUC employees including Powerline Maintainer are non-unionized employees. (ref: Section 4.4). All non-unionized employees are adjusted on a yearly basis to reflect the inflation factor (ref: Section 4.2.3).

[3] 2019 EDR Webpage November 23, 2018 Reference – "…the OEB has calculated the value of the inflation factor for incentive rate setting under the Price Cap IR and Annual Index plans, for rate changes effective in 2019, to be 1.5%..."

Questions:

a) Please provide specific information on why the proposed cost increases are necessary for CPUC to achieve the objectives that CPUC has targeted in the capital and operating expenditure sections of its application, and the alternative methods for achieving these objectives that were considered and rejected in favour of the proposed compensation increases.

b) Please confirm that effective January 1, 2018 CPUC used the adjusted price cap index of 0.75% as an inflation factor for budgeting purposes.[4] If this was not the case, please explain.

c) Please explain the increased total compensation costs of $116,633, or 44.2% (6.3% per year), when comparing 2019 test year to 2012, or approximately 6.3% per year:

   i. when inflation is approximately 1.5%

   ii. in the past CPUC used an inflation rate of 2.0% for budgeting purposes and effective January 1, 2018 CPUC used the adjusted price cap index as an inflation factor[5]

   iii. Reconciling to the description of changes to FTEs provided in Exhibit 4, Table 18:

      a. the number of management 2019 FTEs has increased to two FTEs, versus one FTE in 2012
      b. the number of non-management 2019 FTEs has decreased to three FTEs, versus four FTEs in 2012
      c. the number of total 2019 FTEs has stayed the same at five FTEs, versus the number of FTEs in 2012

d) Please explain why at the above noted second reference, Table 22 - Headcount (number of months worked per year), a 2018 number of FTEs of five is shown, whereas in the first above noted reference, Table 18 - OEB Appendix 2-K – Employee Compensation a 2018 number of FTEs of seven is shown.

e) Please explain why CPUC shows FTEs in Appendix 2-K for the period 2012 to December 31, 2017 when it operated as a "virtual" utility during this time. (i.e. in the past, employees were employed by its affiliate, Chapleau Energy Services

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[4] An adjusted price cap index of 0.75% (i.e. the OEB's 2018 inflation rate of 1.2%, adjusted for a productivity factor of 0% and a stretch factor of 0.45%)
[5] An adjusted price cap index of 0.75% (i.e. the OEB's 2018 inflation rate of 1.2%, adjusted for a productivity factor of 0% and a stretch factor of 0.45%)

(CES), instead of CPUC, and these employees and services were contracted out to CPUC.)

f) Please provide a more detailed explanation as to why two positions are now required to oversee the utility (e.g. the General Manager and the Manager of Finance), when in the past (e.g. prior to 2017) only one position was required to manage CPUC.

g) Please confirm that all of CPUC's employees' salaries are adjusted on a yearly basis to reflect a rate of 2% (e.g. the rate used by CPUC for budgeting purposes) or whether effective January 1, 2018 CPUC used the adjusted price cap index as an inflation factor.

   i. If yes, please describe why CPUC's employees' salaries should be adjusted for a rate of 2%, when the inflation rate is 1.5%.
   ii. If no, please provide more detail on the adjusted price cap index CPUC proposes to use as an inflation factor. For example in 2018 did CPUC use an adjusted price cap index of 0.75% to adjust salaries (i.e. the OEB's 2018 inflation rate of 1.2%, adjusted for a productivity factor of 0% and a stretch factor of 0.45%)?
   iii. If no, please describe what rate is used to adjust the salaries of its employees.
   iv. If no, please also describe why some employees are adjusted and some employees are not adjusted.

h) Please describe whether any CPUC employees receive performance pay or a bonus, and how this compensation is structured.

i) Please explain why CPUC did not use specific benchmarking studies to determine salary ranges other than basing its inflation rate and salary at the Town of Chapleau.

j) Please provide more detail how CPUC employees' salaries are compared to other salaries at the Town of Chapleau.

k) Please discuss further how CPUC has maintained the same number of FTEs between 2012 and 2019, while at the same time using other measures to complete its required work. Please discuss the extent to which overtime, contracting out (as noted above in the sixth reference), or other measures of this kind were used.

l) OEB staff notes that in the Excel Appendix 2-K, there are two columns relating to 2012 (OEB approved and actual), but both columns have identical numbers. Please update the evidence to show 2012 OEB approved and 2012 actual.

m) OEB staff notes that the PDF Appendix 2-K in Exhibit 4 has only one column for 2012 and does not specify whether it is 2012 OEB approved or 2012 actual. Please update the evidence to show 2012 OEB approved and 2012 actual.

Responses:

a) CPUC being a small remote community found it very necessary to have full time people in the positions of full-time lineman, in financing and management for safety, reliability, customer service and to maintain a safe reliable distribution system. We replaced a previous manager who was being paid well below the market median, with a Manager of Finance and moved the Lineman Assistant Administrator to General Manager. These salary increases are necessary to attract and retain qualified employees. It was unrealistic to expect to be able to hire a replacement at that discount. CPUC needs two full time linemen for safety and trouble calls and in order to meet the DSC must have a qualified person on site of an emergency call within 2 hrs. This would not happen because of our remoteness if we did not have the staff. Any alternatives would not be in the best interest of the company nor its ratepayers.

b) Please refer to 4-Staff-44.

c) In 2012 not 100% of compensation was allocated to CPUC. A portion remained in CESC. If 100% had been allocated to CPUC the numbers would have look like this: CESC allocation being different every year make is difficult to explain. The section below shows what the numbers would have been if we weren't a "virtual" utility. his shows that we haven't had a big increase like they think we have.

Management in 2012 would have been 71,033. In 2019 CPUC has budgeted 149,760. The difference would have been **78,727**. The difference would be attributed to:

One lineman being promoted to Management – 70,000
Wage increases over 7yrs – 8,727 (1,246 per year).

Lineman in 2012 would have been 190,952. In 2019 CPUC budgeted 158,309. The difference would have been **(32,643)**. The difference would be attributed:

One less lineman (promoted to management) – (67,329)
The portion of manager that is in lineman – 23,650
Wage increases over 7yrs – 12,000 (6k per lineman, 850per year)

Clerk in 2012 would have been 36,373. In 2019 CPUC budgeted 41,455. The difference would have been **5,082**. The difference would be attributed to:

Wage increase over 7yrs – 5,082 (726per year)

On Call in 2012 was 7,800. In 2019 CPUC budgeted 13,000. The difference would be **5,200**. The difference can be attributed to:

On call was increase from 150 weekly to 250 weekly

Total difference – 56,366 (8,000 per year)

CPUC only compared the salary and wages portion not the benefits portion, to me the benefits are all relevant to the wages.

d) Table 18 shows the amount of staff throughout 2018, whereas table 22 shows the staff remaining at the end of 2018. CPUC had two summer students in 2018 but they were gone by September.

e) For rate making purposes, for reporting purposes, for benchmarking purposes, CPUC much like other virtual utilities, is required to show its employees and costs as it would if it had been a traditional utility.

f) Because one person should not be doing the work of multiple people. Yes, CPUC is a small utility but CPUC still has the same obligations as a large utility. Same OEB and IESO reporting, regulations to follow, billing, payroll, payables……. Having one person do all the jobs is not realistic and an unfair expectation. It was too much for the one person who was a veteran for 20 years imaging how much it would have been for a new person coming in.

g) CPUC's employee salaries are adjusted on a yearly basis based on the union contract from the Township of Chapleau employees.

i. Effective Jan 1, 2018 CPUC used a 1.5% rate increase, which would match the inflation rate.
ii. N/A
iii. The rate used is based on the union contract from the Township of Chapleau employees.
iv. All employees are adjusted

h) No performance pays or bonus

i) CPUC did not use the Town for benchmarking to determine the salary ranges only used them for the yearly increases. They had starting wages back in the day and CPUC has always used the Town to determine increases. CPUC did however hire a company to do the wage study in 2018 to see if CPUC were competitive and found out that CPUC is not and that our employees are in fact under paid:

Lineman – 22.16% below market
Clerk – 7.4% below market
Manager of Finance – 6.08% below
General Manager – 7.87% below market

j) They are not compared to the Town, we just give our employees the same wage increases per year.

k) This is explained in a combination of a) to j) above

l) And m) Chapter 2 appendices

4-Staff-50

Ref: Table 21 - Details Compensation Accounts
Exhibit 4, page 30

Preamble:

At the above noted first reference, CPUC showed the following table.

Table 21 - Details Compensation Accounts

	2012	2013	2014	2015	2016	2017	2018	2019
Number of Employees (FTEs including Part-Time)[1]								
Total Salary and Wages including overtime and incentive pay								
Management+ linemen (including executive)	193,227	197,803	205,360	201,266	232,699	230,374	314,100	308,069
• Salary Increase 2%)		2%	2%	2.5%	2%	2%		
• CPUC Management Allocation (virtual)	84%	87%	87%	81%	85%	89%		
• CPUC Linemen Wages Allocation (virtual)	100%	100%	100%	100%	100%	100%		
• CPUC Clerk Wages Allocation (virtual)	84%	87%	87%	81%	81%	89%		
• CPUC Holiday Allocation (virtual)	84%	87%	87%	81%	81%	89%		
• CPUC on-call Allocation (virtual)	100%	100%	100%	100%	100%	100%		
• Overlap of role for succession purposes						+$14.5K		
• Promotion of Senior Lineman to General Mgr						*+6.7K		

At the above noted second reference, CPUC stated the following:

> …increase in management costs related to the change in a corporate structure where 100% of management salaries are now embedded in OM&A…

Questions:

a) Please complete Table 21 to show 2018 actuals and 2019 projected.

b) Please explain how Table 21 shows CPUC employees when prior to 2018 CPUC operated as virtual utility with no employees.

c) Please confirm that salaries are allocated a specific percentage to CPUC from CES prior to 2018 and explain the allocations.

d) Please confirm that effective January 1, 2018, 100% of the above noted salaries are now being paid by CPUC, including both management and non-management salaries. Please explain why in the past allocations less than 100% may have been sufficient to maintain CPUC's operations.

e) Please explain why the "Total Salary and Wages including overtime and incentive pay" in Table 21 do not match the same line in Table 18. For example:

i. 2012 – Table 18 shows $250,370; Table 21 shows $193,227
ii. 2013 – Table 18 shows $262,148; Table 21 shows $197,803
iii. 2014 – Table 18 shows $273,166; Table 21 shows $205,360
iv. 2015 – Table 18 shows $263,078; Table 21 shows $201,266
v. 2016 – Table 18 shows $296,424; Table 21 shows $232,699
vi. 2017 – Table 18 shows $300,309; Table 21 shows $230,374
vii. 2018 – Table 18 shows $367,550; Table 21 shows $0
viii. 2019 – Table 18 shows $362,524; Table 21 shows $0

Responses:

a) The allocation shown at Table 21 stopped when CPUC ceased to be a virtual utility. Therefore, there is no longer any allocation in 2018-2019 as 100% of the employee's time is not allocated to CPUC.

b) See response to 4-Staff-48.

	2012	2013	2014	2015	2016	2017	2018	2019
Number of Employees (FTEs including Part-Time)[1]								
Total Salary and Wages including overtime and incentive pay								
Management (including executive)	**$59,567**	**$64,246**	**$60,027**	**$60,695**	**$87,775**	**$109,622**	**$149,000**	**$149,760**
• Salary Increase 2%)		2%	2%	2.5%	2%	2%		
• CPUC Management Allocation (virtual)	84%	87%	87%	81%	85%	89%		
Non-Management (union and non-union)	**$190,803**	**$197,902**	**$213,139**	**$202,384**	**$208,649**	**$190,688**	**$218,550**	**$212,764**
• CPUC Linemen Wages Allocation (virtual)	84%	87%	87%	81%	81%	89%		
• CPUC Clerk Wages Allocation (virtual)	84%	87%	87%	81%	81%	89%		
• CPUC Holiday Allocation (virtual)	84%	87%	87%	81%	81%	89%		
• CPUC on-call Allocation (virtual)	100%	100%	100%	100%	100%	100%		
• Overlap of role for succession purposes						+$14.5K		
• Promotion of Senior Lineman to General Mgr.						*+6.7K		
Total	**$250,370**	**$262,148**	**$273,166**	**$263,078**	**$296,424**	**$300,309**	**$367,550**	**$362,524**

Yes, they weren't "CPUC" employees but that was the cost of those employees to do lineman duties. (same as 4-48 e)

c) CPUC confirms that CPUC now pays 100% of the above noted salaries directly. In the past the above noted salaries were 100% paid by CPUC's affiliate CESC, and CPUC was charged a portion of the salaries based on a time allocation. It appears to CPUC that the affiliate CESC was undercharging CPUC, as the amount charged to CPUC combined with the amount CESC was able to charge to customers other then CPUC was not enough to cover the full amount of the salaries. In the event CESC were to have continued operating (which is not the case) and CPUC did not take on 100% of the salaries directly, the allocation of costs to CPUC by CESC would have had to increase to properly reflect the percentage of the total work those employees performed for CPUC as opposed to customers of CESC other then CPUC. Under the current arrangement CPUC is appropriately paying the full cost of the salaries, with any revenue generated through the use of those employees to perform work for customers other than CPUC distribution customers treated as a revenue offset against the CPUC revenue requirement

d) Yes 100% of salaries are now being paid by CPUC but some salaries are non utility related. CPUC performs non utility related work such as street light maintenance, tree trimming (not related to our lines), work for Hydro One. The portion of those salaries/wages are put into 4380 non utility related expenses.

e) The table in the application should have show the information at the table in section b) of this IR

4-Staff-51

Ref: Exhibit 4, Table 13, OEB Appendix 2-L Recoverable OM&A Cost per Customer and FTE
Exhibit 4, page 28

Preamble:

At the above noted first reference, the following table is shown.

Table 13 – OEB Appendix 2-L Recoverable OM&A Cost per Customer and FTE[8]

	2012	2013	2014	2015	2016	2017	2018	2019
Number of Customers	1,281	1,226	1,224	1,222	1,227	1,221	1,221	1,209
Total Recoverable OM&A	670,607	638,471	744,673	730,565	744,037	716,586	809,404	821,163
OM&A cost per customer	524	521	609	598	606	587	663	679
Number of FTEs	5	5	5	5	5	5	5	5
Customers/FTEs	256	245	245	244	245	244	244	242
OM&A Cost per FTE	134,121	127,694	148,935	146,113	148,807	143,317	161,881	164,233

	2012	2013	2014	2015	2016	2017	2018	2019
OM&A Costs								
O&M	$289,711.10	$220,412.01	$223,210.54	$208,239.31	$236,332.09	$237,909.06	$247,400.00	$244,370.00
Admin Expenses	$380,895.82	$418,058.85	$521,462.73	$522,325.49	$507,704.50	$478,676.77	$562,004.00	$576,793.00
Total Recoverable OM&A from Appendix 2-JB [5]	$670,606.92	$638,470.86	$744,673.27	$730,564.80	$744,036.59	$716,585.83	$809,404.00	$821,163.00
Number of Customers [2,4]	1,281	1,226	1,224	1,222	1,227	1,221	1,221	1,209
Number of FTEs [3,4]	5	5	5	5	5	5	5	5
Customers/FTEs	256.20	245.10	244.70	244.30	245.40	244.20	244.20	241.76
OM&A cost per customer								
O&M per customer	$226.16	$179.85	$182.44	$170.48	$192.61	$194.85	$202.62	$202.16
Admin per customer	$297.34	$341.13	$426.21	$427.61	$413.78	$392.04	$460.28	$477.15
Total OM&A per customer	$523.50	$520.99	$608.64	$598.09	$606.39	$586.88	$662.90	$679.31
OM&A cost per FTE								
O&M per FTE	$57,942.22	$44,082.40	$44,642.11	$41,647.86	$47,266.42	$47,581.81	$49,480.00	$48,874.00
Admin per FTE	$76,179.16	$83,611.77	$104,292.55	$104,465.10	$101,540.90	$95,735.35	$112,400.80	$115,358.60
Total OM&A per FTE	$134,121.38	$127,694.17	$148,934.65	$146,112.96	$148,807.32	$143,317.17	$161,880.80	$164,232.60

At the above noted second reference, CPUC stated the following:

> OEB Appendix 2-L Employee Costs at Table 13 – OEB Appendix 2-L Recoverable OM&A Cost per Customer and FTE below shows an OM&A cost per customer of $679 in 2019 in comparison to $524 in the 2012. CPUC is aware of the significant impact this application has on its customer however, the utility feels that the costs presented in this application reflect the minimum costs required to operate a utility. In CPUC's view, the necessarily high cost of serving such a small customer base in such a remote area has been recognized by the provincial government in the extension of DRP funding towards CPUC's customers. That said, CPUC will continue to look for ways of finding efficiencies to help reduce costs for its customers.

Questions:

a) Please explain how Table 13 shows CPUC employees when prior to 2018 CPUC operated as virtual utility with no employees.

b) As noted earlier in IR# 4-Staff-48, considering total compensation costs have increased of $116,633, please explain CPUC's statement that it is operating a minimum cost structure, when comparing 2019 test year to 2012.

c) Please explain CPUC's statement that there is a "necessarily high cost of serving such a small customer base in such a remote area."

d) Please explain in more detail how CPUC will continue to look for ways of finding efficiencies to help reduce costs for its customers. Please quantify such efficiencies and forecast the impact on CPUC's 2019 proposed revenue requirement.

Responses:

a) For rate making purposes, for reporting purposes, for benchmarking purposes, CPUC much like other virtual utilities, is required to show its employees and costs as it would if it had been a traditional utility.

b) As explained <u>in detail</u> in the application, prior to 2018, the utility's costs were shared with the affiliate. Please refer to 4-Staff-48 for response.

c) Some of CPUC's requirements and costs are as onerous as they would be for a Hydro One or Toronto Hydro for example. A pole costs the same, if not more, in a remote service area as it would in a high-density urban area. However, a small remote utility has fewer customers to spread these costs across. Being remote also limits the availability of local experts CPUC can use. CPUC often has to outsource from out of town.

d) Chapleau is a small community and, as such, it can be difficult to optimize the use of CPUC's linemen. That said, CPUC will continue to look for opportunities to offset its costs by increasing it's non utility related revenue. CPUC cannot quantify work that has not yet materialized but CPUC will continue to look for ways to reduce costs through revenue offsets.

4-Staff-54

, Appendix 2-N – Shared Services and Corporate 1 Cost Allocation
Exhibit 4, page 26
Exhibit 1, 2017 Business Plan, page 39

Preamble:

At the above noted first reference, CPUC has provided Appendix 2-N which shows amounts charged by CES to CPUC for the period 2012 to 2017. OEB staff notes that no amounts charged by CPUC to CES are shown.

At the above noted second reference, CPUC stated the following:

> By the end of 2018, CPUC will be under-earning due mainly to the fact that the utility was being subsidized by an affiliate. The affiliate was reporting a loss and as such closed its doors on December 31, 2017.

At the above noted third reference, CPUC stated the following:

> Because in this case the change in structure was caused primarily because the affiliate that was providing resources to the utility was ceasing operations, the cost sharing opportunities that CPUC enjoyed under the previous structure also ceased.

Questions:

a) As noted in IR# 4-Staff-53, please confirm that no amounts were charged by CPUC to CES over the period 2012 to 2017. If this is not the case, please quantify and explain.

b) Please describe and quantify the services charged by CES to customers other than CPUC over the period 2012 to 2017.

c) Considering that CES ceased operations effective January 1, 2018, it is unclear how the services formally provided by CES to customers other than CPUC are being served.

    i. If CPUC is now providing these services, please quantify the amounts and also quantify the impact on the 2019 proposed revenue requirement. If this is not the case, please explain.

ii. Please demonstrate how CPUC has presented these services as an Other Revenue offset to its 2019 proposed revenue requirement. If this is not the case, please explain.

iii. If CPUC is not providing these services, please confirm which entity is providing these services.

iv. In the breakdown of the cost allocations for 2012 to 2017 that were provided in Exhibit 4 accompanying Appendix 2-N, there are two columns: 1) Amount allocated to CPUC and 2) Amount Remaining in CES. Please describe whether similar amounts in the second column are now being borne by CPUC and please quantify the impact on the 2019 revenue requirement. If this is not the case, please explain.

d) Please describe how CPUC experienced cost sharing opportunities under its former structure of being a virtual utility.

e) Please describe how CPUC was able to manage its operations incurring lower costs in the past when CES was providing services to CPUC, compared to now when CPUC is a conventional, versus virtual utility.

f) Please provide more detail regarding CPUC's statement that it was being subsidized by an affiliate and that the affiliate was reporting a loss.

g) For costs that were charged and allocated to CPUC by CES at a percentage less than 100% in the past, are 100% of these charges now being borne by CPUC? Please explain and quantify.

Responses:

a) Confirmed.

b) CESC performed work such as streetlight maintenance, chimney cleans, and Hydro One rural work for customers other than CPUC. Please refer to the Section 86 Application filed by CPUC on April 5, 2019 for copies of the financial information CPUC has access to for CESC for the years 2016 and 2017.

c)

i) to the extent the non-utility customers that CESC was servicing continue to want service CPUC is providing that service. CPUC has included the 2018 and 2019 other forecasted revenue from these services in its 2018 and 2019 other revenue forecasts.

ii) These revenues are reflected in account 4375- Revenues from Non-Utility Operations

iii) To the extent that the customers other than CPUC continue to require services and retain CPUC to perform those services CPUC has included forecast revenue from those services in its forecast other revenue; if someone other than CPUC is performing services for customers other than CPUC that used to retain CESC CPUC has no direct knowledge of who may per performing those services, other than to note that Hydro One, to CPUC's knowledge, is performing the work it used to use CESC for.

iv) The "Amount remaining in CES" column referred to costs that were not allocated to CPUC as a result of time allocations; now that CPUC no longer obtains services from a service company like CESC but instead directly employs its own staff and owns its own service assets there are no unallocated amounts to "remain". Had CPUC continued to operate as a virtual utility using CESC as its service company the "amount remaining in CES" would have had to be eliminated going forward by increasing the allocation to CPUC and, where feasible, increasing the charges to customers other than CPUC.

d) Because of the nature of the allocation methodology in use before CESC ceased operations CPUC was the beneficiary of an under allocation of costs to it from CESC when there was insufficient revenue from customers other than CPUC to allow CES to recover its full costs.

e) As described in part d) CPUC was the beneficiary of an under allocation of costs to it from CESC. As a result of CESC ceasing operations CPUC lost the benefit of the under allocation of costs to it.

f) As described in parts d) and e) CESC was under allocating costs to CPUC; this constituted a subsidy from CESC to CPUC as long as the under allocation was not rectified through an updating of the cost allocation between the affiliates.

g) Answered in c) (iv).

4-Staff-55

Ref: Exhibit 1, pages 9 & 263
Exhibit 4, page 7

Preamble:

OEB staff notes that CPUC has characterized the transferring of assets and employees from CES to CPUC as a "merger". In other exhibits, CPUC refers to a "change in organizational structure". As a result, CPUC has characterized the transaction as both a merger and / or organizational change.

Questions:

a) Please provide details and relevant documentation with respect to the merger and / organizational change including an amalgamation agreement. If there is no amalgamation agreement please explain how the merger was documented and implemented.

b) Please provide an explanation of which assets and employees were within the CPUC company and which were within CES and documentation explaining the transfer of the assets and employees.

c) Does CPUC characterize the merger and / or organizational change as an amalgamation of CPUC and CES?

d) If so did CPUC apply to the OEB for leave to amalgamate, in accordance with s.86(1)c) of the OEB Act?

e) If not, what is CPUC's rationale for not applying for leave to amalgamate?

f) Does CPUC intend to file an application and when will this application be filed?

g) Did the merger / organizational change involve any transfer of voting securities? If so, please provide details and related documentation.

Responses:

a) All relevant documentation including the Articles of Amalgamation have been filed by CPUC in a Section 86 Application for approval of the amalgamation on April 5, 2019. The Section 86 Application, which CPUC has asked be heard in conjunction with this application, sets out the details of the amalgamation.

b) The Section 86 Application sets out the assets that were provided to the amalgamated company by each of CPUC and CESC.

c) The organization change was effected through the amalgamation of CPUC and CESC as set out in the Section 86 Application.

d) CPUC did not apply for leave to amalgamate under section 86 (1) (c) of the OEB Act.

e) CPUC failed to apply for leave to amalgamate through inadvertence.

f) CPUC filed a leave to amalgamate on April 5, 2019, and sent copies to the parties to this application.

g) No.

4-Staff-56

Ref: Exhibit 1, page 9
Exhibit 4, page 7

Preamble:

OEB staff notes that CPUC stated the following regarding the rationale for the merger / organization change with CES.

At the first noted reference, CPUC stated:

> As of January 1, 2018, the utility no longer operates as a "virtual" utility where employees were employed by Chapleau Energy Services and contracted out to Chapleau PUC. The merger was intended to reduce regulatory complexity and administrative burden and to make rate applications a less difficult process. The result is a company that can better control the costs associated with rates, and increased transparency.

At the second noted reference, CPUC stated:

> The increase can be attributed to two major drivers that impacted both the utility's overall costs. The first driver was the change in organizational structure from a virtual utility to a conventional utility which caused an increase in overall staffing costs. The methodology used to allocate corporate cost allocations was based on a one-way percentage which upon further analysis revealed that the utility had been benefiting from cost sharing opportunities with its affiliate at the detriment of the affiliate which ended up shutting its operations and doors on December 31, of 2017.

Questions:

a) Please provide more detail regarding the rationale for the merger / organizational change.

b) Was it approved by CPUC's board of directors and shareholder(s) ?

c) Are there any other approvals necessary for the transaction and were they obtained?

d) If so, please provide documents to indicate approval(s) was / were obtained.

e) Please describe the steps that were undertaken when CPUC ceased operating as a virtual utility as of January 1, 2018. Please also quantify these steps (e.g. transfer of assets, employees, etc. from CES to CPUC), including any impacts on the 2019 proposed revenue requirement.

f) Please describe in more detail how CPUC can better control its costs associated with rates and provide increased transparency, as a result of ceasing to operate as virtual utility.

g) Please describe how the change in organizational structure from a virtual utility to a conventional utility caused an increase in overall staffing costs, in particular when it is OEB staff's understanding that no additional services are being provided by CPUC since it ceased operating as a virtual utility. If this is not the case, please explain.

h) Were any other costs other than staffing costs increased when CPUC changed from a virtual utility to a conventional utility? Please quantify and explain.

i) Please describe CPUC's reference to a "one-way percentage" of corporate cost allocations between CES and CPUC.

Responses:

a) As a result of the cessation of operations of CESC CPUC needed to find an alternative way to obtain the services it required to maintain and operate its distribution system. Because CESC was an affiliate of CPUC, wholly owned by the same municipal shareholder that wholly owns CPUC, the simplest options for CPUC to obtain the necessary resources in order to continue to maintain and run its system were to either a) transfer the assets of CESC to CPUC, or b) amalgamate with CESC, with the effect that the assets of CESC and CPUC would be held together within Amalco. In either case the net result would be the effective transfer of the assets that CPUC required to maintain and run its distribution system. CPUC's shareholder ultimately decided to effect the transfer through an amalgamation.

b) Yes.

c) In order to amalgamate with CESC CPUC requires leave of the OEB under s. 86 (1) (c) of the OEB Act; as recognized in 4-Staff-55 CPUC did not apply for leave to amalgamate until April 5, 2019 as a result of inadvertence.

d) N/A.

e) Please see the Section 86 Application filed on April 5, 2019 for the requested details.

f) As a result of the amalgamation all costs to operate the distribution system are now directly borne by CPUC instead of being allocated to CPUC by an affiliate.

g) See IRR 4-Staff-54.

h) See IRR 4-Staff-54.

i) The term “one way percentage” refers to the fact that CPUC never allocated costs to CESC; the allocations were always from CESC to CPUC.

4-Staff-57

Ref: Exhibit 2, page 41
Exhibit 1, page 31 of 2017 Business Plan

Preamble:

At the first above noted reference, CPUC has characterized the transaction as a transfer of assets and indicated that there was a $104,610 "transfer of assets from an affiliate" (CES to CPUC) in 2018.

At the second above noted reference, CPUC stated the following:

> CPUC was restructured into a fully operational utility on January 1, 2018. Prior to this it had been run and regulated as a virtual utility owning most but not all assets required to conduct business and having no dedicated staff. The restructuring required the transfer of the remainder of the property, plant and equipment assets necessary to carrying out utility business and these assets were transferred at fair value. The transferred assets consisted of office furniture and equipment, computer hardware and software, transportation equipment and tools, tools and equipment. Additionally, all 5 employees were also transferred into CPUC.

Questions:

a) Please provide details and documents related to the transfer of assets.

b) How was the valuation of the $104k transfer of assets determined? Please provide details.

c) Please confirm that CPUC has incorporated the $104k of new fixed assets into its proposed 2019 revenue requirement.

d) Please describe and quantify any impact on the proposed 2019 revenue requirement resulting from the merger or amalgamation of CPUC with CES.

e) Please provide details of the tax treatment of losses incurred by CES and quantify any benefit that CPUC may have obtained from these losses for tax purposes.

f) Considering that CES ceased operations effective January 1, 2018, it is unclear how the services formally provided by CES to customers other than CPUC are being served. Of particular concern are the assets that were part of CES that were used to provide services to customers other than CPUC.

i. Please describe and quantify how the assets that were recorded on CES' books to serve customers other than CPUC where and are now being recorded, considering CES no longer exists.

ii. If CPUC is now providing these services, please quantify the amounts of the assets and also quantify the impact on the 2019 proposed revenue requirement. If this is not the case, please explain.

iii. If CPUC is not providing these services, please confirm which entity is providing these services.

Responses:

a) Please see the Section 86 Application filed on April 5, 2019 for the requested details.

b) Assets were transferred at net book value.

c) Confirmed.

d) There are no impacts on the proposed 2019 revenue requirement as a result of the amalgamation; had the amalgamation not occurred CPUC would have obtained the same staffing and assets as it ultimately obtained through the amalgamation as a result of the cessation of operations by CESC.

e) CPUC is not aware of any tax treatment of losses incurred by CES nor is any benefits to the regulated utility. CPUC notes that KPMG was involved in each step of the amalgamation and did not bring up the topic of tax benefits.

f)

i. All CESC assets were transferred at book value (104,610) and are recorded on the books of the amalgamated company CPUC:
   1. Buildings – 55,931
   2. Office furniture and equipment – 2,769
   3. Transportation equipment – 15,910
   4. Land – 30,000
   5. Transportation equipment – 15,910

6. Land – 30,000

ii) CPUC has forecast $39,474 in revenue from services to customers other than CPUC, with offsetting costs to provide those services in the amount of $25,658.

iii) See IRR 4-Staff-54 c) iii).